Peace Mark (Holdings) Limited
宜 進 利 (集 團) 有 限 公 司

Annual Report 2005 年報

CONTENTS

CORPORATE **PROFILE**

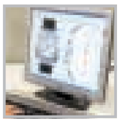
Founded in 1983 and listed on the Stock Exchange of Hong Kong since 1993 (Stock code: 304), **Peace Mark**, headquartered in Hong Kong, is a leading manufacturer, distributor and retailer in the timepiece industry.

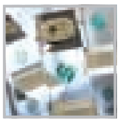
Its business involves OEM, ODM, **distribution** and **retail** of licensed and own brand timepieces and after-sales services.

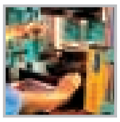
The Group designs, manufactures, distributes and retails international brand name timepieces to major markets including the **USA**, **China**, **Europe** and the **Asian** countries.

The Group has production facilities located in **Hong Kong**, **Shenzhen** and **Shanghai**, **China**, and **Bienne**, **Switzerland**, employing a total of more than 4,000 staff.

BUSINESS **MODEL**

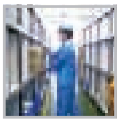

Design and product engineering

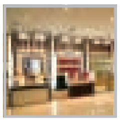

Mechanical movement manufacturing

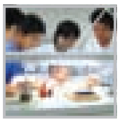

Components manufacturing

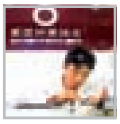

Electroplating


Assembly


Logistic support


Retail and distribution


Technical training centre


After-sales and repair services

CORE GROUP **STRUCTURE**

Marketing, trading, distribution and retailing

WORLDWIDE
Inter Mark Worldwide Limited
Montana Timepieces International Limited
Peace Mark Limited

ASIA PACIFIC
Eastern Group (Asia) Limited
Epoch World Co., Limited
Milus (Far East) Limited

CHINA
Chongqing Meida Enterprise Co., Limited
Guangzhou Goldsmith Timepieces Co., Limited
Guangzhou Imarsion Trading Co., Limited
Mega Chains (China) Limited
Shanghai Shiqi Trading Co., Limited
Shanghai Zhuoshi Watches Co., Limited
Shenzhen Dayuen Watches Co., Limited
Shenzhen Times Co., Limited
Solomon Watch & Jewellery Co., Limited
T&T Timepieces Co., Limited

THE AMERICAS
Bensonic International Limited
Omni Watch & Clock Co., LLC.

EUROPE
Milus Germany GmbH
Milus International S.A.

After-sales services

Guangzhou Watchsmith Timepieces Servicing Co., Limited

Production

MECHANICAL MOVEMENT
Shanghai Golden Time Precision Instrument Co., Limited

STAINLESS STEEL COMPONENTS
Timetech Industrial Limited

METAL COMPONENTS
Pure Riches Industries Limited

ELECTROPLATING AND IONIZED PLATING
Gar Shun Enterprises Development Limited

ASSEMBLY
Capricon Company Limited
Peace Mark Limited

Trademark holding

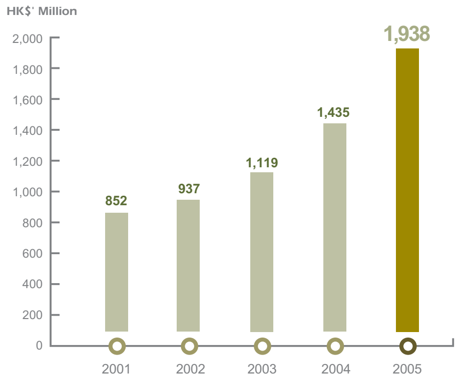
WORLDWIDE
Aerostar Timewear International Limited
Cornell Worldwide International Holdings Limited

ASIA PACIFIC
Eastco Business Limited
Fiorucci Timewear (Far-East) Limited
Solomon Trademark Management Limited
TimeZone Trademark Management Limited

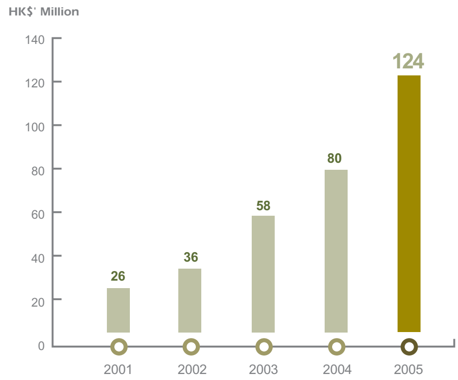
CHINA
Ever Precision Corporation
PM License Management Limited

FINANCIAL **HIGHLIGHTS**

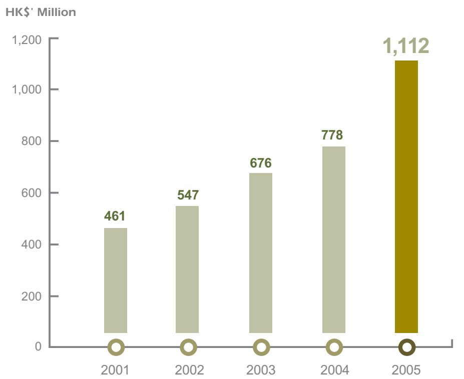
Turnover



Profit Attributable to Shareholders

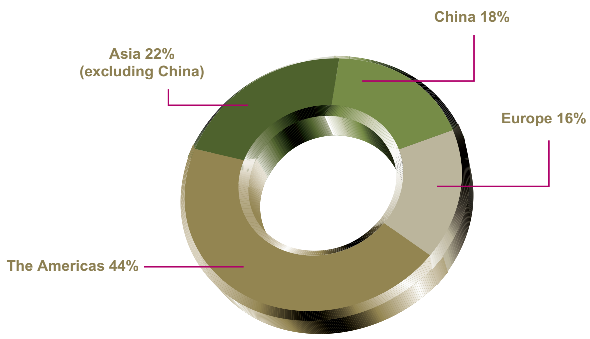


Shareholders' Funds

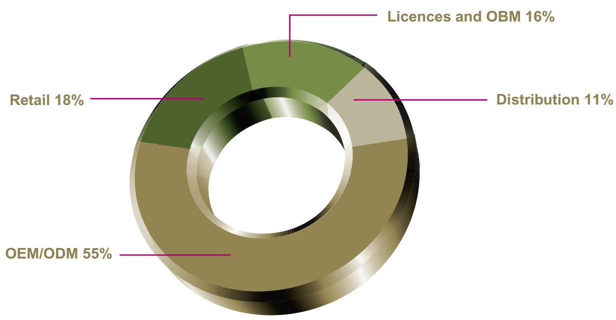


TURNOVER **ANALYSIS**

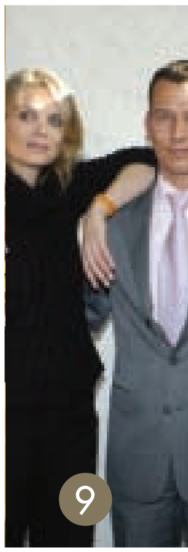
Turnover by Geographical Market



Turnover by Business



MAJOR EVENTS



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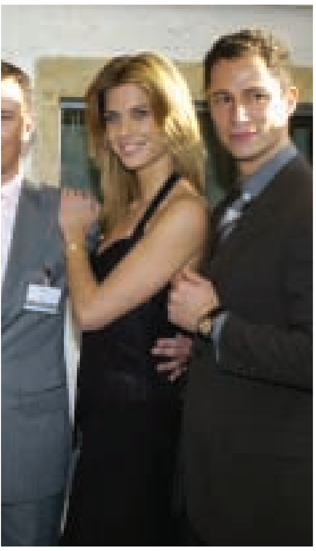

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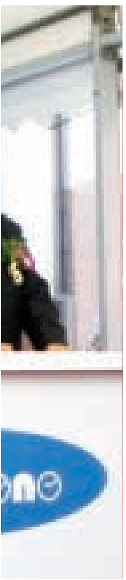

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Business

2004

1. Acquired majority equity of a mechanical movement manufacturer in China in April 2004.

2. An advanced components manufacturing facility in Longhua, China was in production in August 2004.

3. Participated in Hong Kong Watch and Clock Fair 2004 in September 2004.

4. The official launch of the new series of Milus at the Grand Hyatt Hotel in September 2004.

5. Participated in "Hong Kong Watch", Hangzhou (October 2004), Chongqing (December 2004) and Beijing (May 2005), organized by Trade and Industry Department.

6. Participated in "Style Hong Kong" Beijing (April 2004), Shanghai (September 2004) and Dubai (December 2004)

7. Organized the "Chongqing Swiss Watch Gala Night" in November 2004.

2005

8. Formed a multi-brand counter network "Trendy Trendie", in the prestige department stores in China in February 2005.

9. Participated in "Baselworld 2005 ▪ The Watch And Jewellery Show" in March 2005.

10. Opened first retail shop of TimeZone in Hong Kong in April 2005.

11. 4 fashion brand names manufactured by Peace Mark, obtained Hong Kong Q-Mark Lincences in May 2005.

12. Grand Opening of TimeZone "Mega Shop-in-Shop" in Shanghai Parkson Department Store in May 2005.

13. Milus TARASEA ranked top ten in the category of "Best Lady Watches 2005" by Chronos Awards in June 2005.

14. Mr. Leung Yung, the Group's CEO, became the President of Hong Kong Watch Manufacturers Association Limited in June 2005.

Investor Relations

2004

Awarded "Hong Kong Outstanding Enterprises 2004" by *Hong Kong Economic Digest* in November 2004.

Offered the "Share Incentive Scheme" in December 2004.

Appointed Mr. Mak Siu Wing, Clifford as Independent Non-Executive Director in December 2004.

2005

Awarded "The Most Prospective Industries 2005" by *Hong Kong Economic Digest* in February 2005.

Entered into a HK$630 million Term Loan and Revolving Credit Facility inter alia with ABN AMRO Bank N.V. and ING Bank N.V. as the co-ordinating arrangers and leaders and 21 other international banks and financial institutions in April 2005.

Became the Constituent Stock of MSCI (Morgan Stanley Capital International) Hong Kong Small Cap Index Series in June 2005.

Expiration of subscription rights attaching to the warrants (warrant code: 2346) in August 2005.

CHINA PRESENCE

DISTRIBUTION OFFICES

Beijing
Changchun
Chengdu
Chongqing
Dongguan
Fuzhou
Guangxi
Harbin
Hubei
Hunan
Laioning
Shanghai
Shanxi
Shenyang
Sichuan
Wuhan
Xiamen
Xinjiang
Yunan
Zhejiang

POINTS OF SALE

Major Cities

Shanghai	77
Chongqing	48
Beijing	45
Shenzhen	34
Guangzhou	22
Wuhan	19
Tianjin	18
Urumqi	18
Chengdu	10

Others

Eastern China	95
Southern China	51
Northern China	40
Central China	36
North-Eastern China	45
North-Western China	7
South-Western China	25

Total

Major Cities	291
Others	299
	590

GLOBAL **PRESENCE**

SALES AGENTS & DISTRIBUTION OFFICES

THE AMERICAS

Canada
Chile
Mexico
Panama
Peru
United States

EUROPE

France
Germany
Russia
Switzerland
UK

MIDDLE EAST

Dubai
Kuwait
Oman
Saudi Arabia

ASIA PACIFIC

Australia
China
Indonesia
Japan
Korea
Malaysia
Philippines
Singapore
Taiwan
Thailand
Vietnam

PRODUCTION FACILITIES

Bienne, Switzerland
Hong Kong, China
Longhua, China
Shanghai, China
Songgang, China
Xixiang, China

BOARD OF DIRECTORS

Executive Directors

Mr. Chau Cham Wong, Patrick (Chairman)
Mr. Leung Yung (Chief Executive Officer)
Mr. Tsang Kwong Chiu, Kevin (Chief Financial Officer)
FCCA, HKICPA, MBA, MSc
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, *FHKICPA, CPA*
Mr. Mak Siu Wing, Clifford

COMPANY SECRETARY

Ms. Fong Ho Yan, *HKICPA, ACCA*

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

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

Swiss Office
Route de Reuchenette 19, 2502 Bienne, Switzerland

French Office
10 Rue Chardin, Paris 75016, France

PRODUCTION FACILITIES

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

China
107 Shui Ku Lu, Fenghuang Gang,
Xixiang, Baoan, Shenzhen, PRC

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

32 Wudong Road, Yangpu District, Shanghai, PRC

Third Gong Ye Qu, Bitou Estate, Songgang, Baoan,
Shenzhen, PRC

Swiss
Route de Reuchenette 19, 2502 Bienne, Switzerland

DISTRIBUTION OFFICES

Hong Kong
Unit 10-11, 5th Floor, International Trade Centre,
No. 11-19, Sha Tsui Road, Tsuen Wan, Hong Kong

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

Room 1101, 308 Da Tak Road, Guangzhou, PRC

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

Unit 11, 12/F, Metro Tower,
30 Tian Yao Qiao Road , Xu Hui District,
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

Germany
Milus Deutschland GmbH, Zahringerallee 25,
DE 75177 Pforzheim

WEBSITE

http://www.peacemark.com

REGISTERED OFFICE

Clarendon House, Church Street, Hamilton HM 11,
Bermuda

STOCK INFORMATION

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

STOCK CODE

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

INVESTOR RELATIONS

Corporate Communications Department – general
Corporate Accounting and 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

ABN AMRO Bank N.V.
Agricultural Bank of China
BNP Paribas
China Construction Bank
ING Bank N.V.
Hang Seng Bank
HSH Nordbank AG
HVB AG
Merrill Lynch

AUDITORS

Chu and Chu
Certified Public Accountants
A member of AGN International
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
Ground Floor,
Bank of East Asia Harbour View Center,
56 Gloucester Road, Wanchai, Hong Kong

In Bermuda:
The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street,
Hamilton HM 11, Bermuda

Mr. Chau Cham Wong, Patrick
Chairman

Financial Year 2005 marked another successful year for Peace Mark and we have demonstrated considerable progress in all areas of our operations and business. Underlying our success is our continuous commitment to enhancing shareholders' value by making sound business decisions that are in line with our long-term strategic plans.

CHAIRMAN'S **STATEMENT**

Dear Shareholders,

Financial year 2005 marked another successful year for Peace Mark and we have demonstrated considerable progress in all areas of our operations and business. I am pleased to announce that our Group achieved excellent results with record-breaking revenue and profit this year, the credit for which goes to the successful acquisitions made during the year under the leadership of our visionary management team. Underlying our success is our continuous commitment to enhance shareholders' value by making sound business decisions that are in line with our long-term strategic plans.

We have yet another cause for celebration. Since June 2005, Peace Mark has been included in the MSCI (Morgan Stanley Capital International) Hong Kong Small Cap Index Series, which demonstrates the recognition of our overall performance by the financial community.

As a reputable timepiece company with a global perspective, much effort was put into further strengthening our presence in China. Today, our business in Mainland China is stronger than ever and we will continue to establish ourselves in the timepiece distribution and retail businesses. We have made steady progress with our long-term strategies, building up our points of sale network to 590 by means of mergers and acquisitions as well as organic growth. With our impressive points of sale network, we are able to serve as a springboard for major fashion and watch brands wishing to penetrate the China market. Backed by strong financial resources and a solid manufacturing setup, the Group is in an ideal position to provide a full range of retail, distribution and manufacturing services to customers from around the world.

Our outlook for Financial Year 2006 and onwards remains robust and we expect growth in all areas. With our enhanced production capabilities, strong brand portfolio and well established downstream business, we are poised for further expansion.

On behalf of the Board of Directors, may I take this opportunity to thank the people who support us: our shareholders, customers, strategic partners and employees. Together we have strengthened the Group's platform for future growth, moving yet closer to our goal of becoming the most admired timepiece company with core competences in design, manufacturing, distribution and retail.

Sincerely,

Mr. Leung Yung
Chief Executive Officer

Building on the strong foundations laid in the past and adopting a low-risk mergers and acquisitions strategy this year have together enabled Peace Mark to achieve record year end results in both revenue and profit. Growth was achieved through enlarging our manufacturing operations and expanding our global downstream distribution business. Much effort was also put into solidifying our position as a reputable timepiece company with a global perspective.

China - Distribution and Retailing

January 2004 was an important time for the Group as the CEPA scheme allowed Hong Kong companies which met certain criteria to enter into the China market for the distribution and retail businesses. During the period under review, Peace Mark successfully completed the incorporation of a Sino-foreign owned enterprise with a timepiece distribution and retail license. China is the only market where Peace Mark has adopted a strategy to manufacture, distribute and retail its products along the chain without relying on any middlemen. A sales network of 590 points of sale was established throughout China by means of mergers and acquisitions as well as organic growth. The accomplishment of this enabled the Group to gain a first mover advantage over its peers. As a result of various active negotiations with brands and mergers and acquisitions deals with China distributors, the Group's brand portfolio size has significantly grown to over 50 brands within a year.

With over 590 self-operated points of sale, Peace Mark has established the largest timepiece points of sale network in China in terms of the number of brands as well as the network size. Our competitive advantages include the provision of the only nationwide network that covers the entire country, in which over 80% of the points of sale are located within the first tier cities. Secondly, the network serves as a support to major fashion and watch brands by providing them with a sales platform to penetrate the China market. Furthermore, backed by strong financial resources and a solid manufacturing setup, the Group is in an ideal position to provide a full range of sales and manufacturing services to various international brands.

TIMEZONE

Mid-Market distribution and retailing

As previously mentioned in our interim report, it was the intention of management to strategically increase our retail presence within key areas in order to enhance awareness of the TimeZone channel name. With a view to further strengthen our presence in the mid-market distribution and retail sectors, in April 2005, a new TimeZone store covering 160 square meters was established in Parkson Department Store, Central Huaihai Road, Shanghai, selling over 30 international watch brands. Obtaining such a sizeable retail space in one of the busiest shopping areas in Shanghai exemplified the importance of TimeZone in the watch retail market in China. Looking forward, each point of sale will be larger in size carrying a more extensive brand portfolio and management is currently in close negotiations with various department stores for bigger and improved space allocations.

Given the continuous success of our downstream business in China, the Group's strategy is to continue to build more points of sale in China. Subsequent to the year end, the Group has further expanded its network from 560 to 590 points of sale. Management targets to grow its network size to 620 points of sale in China by the end of coming financial year and to extend the TimeZone concept to the greater China region. In Taiwan, the Group will convert its existing points of sale and re-brand them to TimeZone. In Hong Kong, we have opened 1 point of sale and are currently in negotiations with major property developers to set up a TimeZone network within various shopping malls. Strategically, the greater China network better positions us to serve international brands throughout the region.

TRENDY TRENDIE

Mid to high-end distribution and retailing

In September 2004, the Group successfully entered into an agreement to acquire a controlling stake in an established timepiece network covering 80 points of sale within the Eastern region of China distributing and retailing a renowned Swiss fashion watch brand. This network was further strengthened in February 2005 through the establishment of 2 additional points of sale under the trade name Trendy Trendie selling high-end fashion timepiece brands such as Dior, Hugo Boss, Emporio Armani, Hermes, Burberry, etc. Given the proven track record and our Group's strategy to cover the whole spectrum of the fashion timepiece market, we intend to expand by 10 additional points of sale in the coming 12 months.

SOLOMON

Luxury retailing

In consideration of the strong consumer purchasing power in Shanghai and the increasing presence of various world renowned luxury brands, as part of our strategy to enter into the luxury watch retail market, we will open two new shops, one in Pudong and the other in Xintiendi, Shanghai under the trade name of Solomon. With a sound track record in the distribution and retailing of fashion and mid-market watches, luxury groups believe in Peace Mark's capabilities and share the vision of developing the luxury watch market in China. We are able to secure prime retail locations and provide relevant support to assist brands in building up their brand identities. The two Solomon stores are due to open before the end of 2005.

USA – Mass market manufacturing and distribution

Since January 2003, coping with the global trend of buying direct, the Group began its distribution business in the US and has established a proven success record. In the past, much effort was put into further strengthening the US distribution strategy by first setting up additional marketing and distribution offices and by expanding the existing customer base. During the year, the management focused on improving both top and bottom line performance through streamlining the selling, general and administrative expenses while continuing to expand its business into more sports and fashion chains. As previously anticipated by the management, the US distribution business recorded an increase in turnover in this year accounting for 25% of US turnover.

MILUS INTERNATIONAL S.A. – Upscale manufacturing and distribution

Entirely Swiss-made quality watches have been Milus' distinctive trademark since its foundation in 1919. During the period under review, the sound reputation Milus designs was once again highlighted through the "Chronos Awards" for the category of "Best Lady Watches 2005" where the Milus Tarasea watch placed in the top ten among various world renowned luxury brands. The expert jury was composed of 100 of the best jewelers in Germany, Austria and Switzerland as well as watch collectors, journalists, specialists, watchmakers, technicians and creators.

The Milus brand further built its presence during the 2005 World Watch and Jewellery Fair in Basel where further international key markets have been entered with the help of highly valuable and experienced partners in the high-end watch industry including, but not limited to Russia, the Middle East region, Spain, the United Kingdom and China. Milus has also launched it first jewellery line during the Basel fair 2005 underlining the clear direction of the brand positioning as being focused on the high end female sector where there is an immense growth potential for Milus.

Looking forward, Milus intends to have a presence in all-important international key markets for the watch and jewellery industry. Behind this approach, the brand can constantly grow and successfully compete in all other markets while continuing to build brand awareness and referring sales opportunities within existing markets.

WORLDWIDE – Manufacturing

The vertically integrated production setup continued to serve as a strong base for the long-term success of Peace Mark. An upscale components manufacturing facility Timetech Industrial Limited began its operations in September 2004 in order to serve the upmarket brands. Backed by a strong design laboratory and short design-to-prototype lead-time, we are able to provide our customers with unmatched turnaround time. Located in Longhua, China, the facility covers 12,000 square meters of space with over 800 employees. The impressive facility is targeted to enter into full production by September 2005. Together with the existing manufacturing capabilities of Peace Mark, we can self-produce a full range of metal timepiece products while also serving various superb customers with high volume, mixed and assorted packaging needs.

Movement Manufacturing

Since June 2004, the Group has entered into production of mechanical timepiece movements through acquiring a 51% equity stake in a movement production facility in Shanghai. After the acquisition, we have upgraded the production facilities and have partly renovated the premises with plans to further improve the facility. The ongoing plan is to partner with various Swiss movement factories to upgrade the overall skill sets and production capabilities to better position the products in foreign markets.

After-Sales Services

To effectively support our downstream expansion plans in China, we have established 28 service points throughout China. Moving forward, we will further expand the network coverage in order to better serve our customers by providing them with easily accessible repair services.

Mr. Tsang Kwong Chiu, Kevin
Chief Financial Officer

Financial Performance

The Group recorded a 35.1% growth in turnover to HK$1.94 billion (2004: HK$1.43 billion) for the year contributed by the strong growth from both the US manufacturing and distribution as well as the China distribution and retailing sectors. Profit attributable to shareholders increased by 54.8% to HK$124 million representing an improved margin of 6.4% (2004: 5.6%).

The increase in turnover and profit attributable to shareholders were mainly due to the strong organic growth of the distribution business in the US and the successful penetration in the distribution and retail watch markets through various acquisitions and partnerships involving distributors and retailers in China.

For the US operation, subsequent to the strengthening of the US marketing team, as well as further vertical integration within the China operation and the implementation of stringent controls over operating expenses, the US business showed encouraging improvement in both the top and the bottom lines. The total revenue for the US distributions was HK$855 million and the EBITDA margin was at 13.8%.

The surge in financial performance in the China market was the result of the establishment of the nationwide distribution and retail network with 560 points of sale covering the whole of China selling international fashion and casual watches. Since the financial performance of some of the acquisitions has not been consolidated on a full year basis, the full year consolidated results of these acquisitions are expected to be reflected in the next reporting year.

The manufacturing division also showed improved results due to enhanced production efficiency, increased orders from the China business, and the shift towards a higher margin product mix after the new component factory was in production in September 2004. All these moves have counter-acted the negative impact of increased raw material prices and general utility costs. The EBITDA margin of the manufacturing business is maintained at more or less the same level as last year.

The gross profit margin continued to improve from 24.1% to 27.8%. The expected improvement was due to the Group's successful execution of its downstream expansion strategy into the distribution and retail businesses in the United States and in China.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 54.0%, representing 9.4% of the Group's turnover as a result of the Group's downstream expansion. The increase in selling and distribution expenses were in line with the significant growth in the distribution and retail businesses. Included in the selling and distribution expenses were provision for bad debts amounting to HK$18.9 million.

Administrative and general expenses

The Group's administrative and general expenses increased by 64.9% over FY2004. During the year, staff costs, professional consultation expenses, and traveling and other office expenses increased with the expanded operation. Included in the administrative and general expenses were impairment loss of goodwill amounting to HK$12.6 million.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds of the Group as at 31st March, 2005 was increased from HK$778 million to HK$1,112 million representing a 42.9% increase.

Financial Position

In April 2004, the Company raised HK$202 million by way of placing of 126,500,000 new shares for the expansion of a high-end components production facility in China, the development of the distribution and retail businesses in China as well as the general working capital requirements. This equity fund raising exercise was in line with the Group's policy to finance long-term projects and business plans by long-term and equity financing in order to avoid mismatch of debt maturities.

The bank borrowings were mainly comprised of trade finance and term-loan facilities. The Group generally finance its operations with internally generated cash flow and short-to-medium term credit facilities provided by commercial banks in Hong Kong and the PRC. As at 31st March, 2005, the Group had outstanding bank borrowings of HK$941 million of 71.4% of a current nature and 28.6% of a long-term nature. The cash and bank balances were maintained at a level of HK$666 million. The net debt position was HK$275 million. The net gearing ratio, calculated by dividing the total bank borrowings net of cash and bank balances over shareholders' equity, decreased from 43% as at 31st March, 2004 to 25% as at 31st March, 2005.

The maturity profile of the Group's bank borrowings were further expanded and the interest costs lowered by entering into a syndicated loan agreement in April 2005. The syndicated loan was in the amount of HK$630 million with 80% structured as a 4-year term loan and the remaining as a revolving credit. The principal purpose of the syndicated loan was to refinance the previous syndicated loan and fund the general corporate expansion plans and working capital.

During FY2005, the Group recorded a net cash inflow from operating activities of HK$171 million. The working capital requirements has been well managed given the expanded downstream business. Overall, the Group's liquidity position remained strong and the Group at the balance sheet date had adequate cash resources and sufficient banking facilities for working capital requirements and future investments in new business developments.

Funding and Treasury Policies

The Group's treasury policy is to manage the Group's assets and liabilities to reduce its exposure to fluctuations in foreign exchange and interest rates. In the normal course of business, the Group enters into certain derivative contracts to hedge its exposure to fluctuations in interest rates and foreign currencies. These instruments are executed by creditworthy financial institutions. Gains and losses on these contracts are applied to offset fluctuations that would otherwise impact the Group financial results. Costs associated with entering into such contracts are not material to the Group financial results. Over 75% of the Group's borrowings were in Hong Kong and US Dollars with the balance in Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever there is material financial impact to the Group.

Regarding the possibility of RMB revaluation, the Group has reduced its RMB borrowings to the extent of HK$80 million subsequent to the balance sheet date. Approximately 24% of the operating expenses and purchase costs are denominated in RMB. For FY2005, 18% of the revenue was generated in China. The RMB appreciation will positively impact profitability for FY2006 should the expansion of the Group's China business develop at a pace as planned.

Working Capital

The net current asset as at 31st March, 2005, was HK$659 million, an increase of 3% as compared to HK$638 million in 2004. The current ratio was 1.7, and has been further improved after the completion of the syndicated loan on April 2005.

The inventory turnover period increased to 107 days from 90 days in FY 2004 as a result of longer business cycle for the US manufacturing and distribution business. Moreover, inventory turnover days was distorted by the newly acquired subsidiaries involving in the China retail business. As most of the acquisitions took place in the middle of the financial year, the financial results were not consolidated on a full year basis which led to prolonged inventory turnover days.

Trade and other receivables turnover time was decreased from 94 days to 75 days due to strong credit control over the customers. During the year, the Group made provision for bad debts amounts to HK$18.9 million.

Trade and other payable was HK$223 million with a turnover time of 48 days. Since the financing costs charged by suppliers have been in general much higher than that of bank borrowings, the Group has adopted a policy to make use of its banking facilities to finance production purchases.

Use of Proceeds from the Placement and Subscription of New Shares

The net proceeds from the placement and subscription of new shares, completed in April 2004, was approximately HK$202 million. Of which, approximately HK$135 million was spent on the development of distribution and retail networks in China and the balance was for the development of an upscale components manufacturing facility in Longhua, China.

Major Acquisitions

In June 2004, an acquisition of 51% equity interest in the capital of a mechanical watch movement factory in Shanghai, China was completed. The total investment amount including the loan to the factory for future expansion amounted to HK$37 million. Part of the amount has been utilized for upgrading the production facilities of the factory.

The Group acquired from an independent third party a registered class-35 trademark, "TimeZone", which is a channel name for a multi-brand nationwide network of 170 points of sale for mid-range fashion brands in China during FY2005. The total consideration for the acquisition is approximately HK$36 million.

The Group acquired four independent PRC marketing and distribution companies in China for a total consideration of HK$56 million; which complements the Group's retail network developments in China. One of the marketing and distribution company is located in Shanghai and holds an exclusive distribution right for a renowned Swiss fashion brand for the Eastern part of China, the other three are in Chongqing, Xinjiang and Xiamen.

Capital Expenditure

During the year, total capital expenditure of the Group was HK$122 million of which approximately HK$70 million was spent for the setup of the high-end production facility and the rest were mainly for the distribution network and general maintenance capital expenditures.

Employees and Remuneration Policy

As at 31st March, 2005, the Group employed over 4,000 employees worldwide. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In addition, the Group has established discretionary bonuses, employee share option schemes and a share incentive scheme, to motivate and reward employees to achieve the Company's business performance targets.

Share Incentive Scheme

On 13th December, 2004, the Company adopted a share incentive scheme (the "Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly instalments. Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

Eligible Persons will not be able to dispose Shares purchased under the Scheme immediately following their purchase. Those selected Eligible Persons who opt to pay for their Shares in one lump sum will be able to dispose their Shares after one year, while those who opt to pay for their Shares in installments will be able to dispose their Shares over a period of time commencing after one year and ending when they make their final instalment payment.

The Company has obtained a loan in the amount up to HK$50 million from a bank for the purpose of financing the operation of the Scheme. Shares to be purchased pursuant to the Scheme will be purchased on behalf of the Eligible Persons by the Custodian. The Custodian will hold the Shares on behalf of the Eligible Persons until they are permitted under the rules of the Scheme to dispose of their Shares.

The aggregate number of Shares to be offered under the Scheme shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the Scheme shall not exceed HK$50 million.

Contingent Liabilities and Capital Commitment

As at 31st March, 2005, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK$10 million.

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to approximately HK$1.5 billion.

As at 31st March, 2005, there was no material capital commitment.

Peace Mark (Holdings) Limited (the "Company") is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest in general. The Board of Directors (the "Board") and the senior management of the Company are committed to make sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high caliber members, Board Committees and effective internal audit and sound systems of internal controls.

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. This report describes the Company's corporate governance practices with specific reference to the Corporate Governance Code.

Board of Directors

The duty of the Board is bound to manage the Group (the Company and its subsidiaries) in a responsible and effective manner and therefore every director has to carry out his/her duty in good faith and up to the standard of any prevailing applicable laws and regulations and act in the best interests of the Company and its shareholders. The Board currently consists of 10 members. Among them, 5 are executive directors and 5 are independent non-executive directors.

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman, Mr. Chau Cham Wong, Patrick, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The CEO, Mr. Leung Yung, supported by other board members and the senior management, is responsible for managing the Group's responsibilities, the businesses, implementating major strategies, making day-to-day decisions and co-ordinating overall business operations.

The Independent non-executive directors, with a term of three years each, are highly experienced professionals and business people with a broad range of expertise and experience in areas such as legal, accounting, finance and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

To assist the directors to discharge their duties, the Board has established written procedures to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

All directors, apart from the Chairman and CEO, are subject to retirement by rotation at the Annual General Meeting. To further enhance accountability, a proposal to amend the Company's Bye-laws to include the Chairman and the CEO under the rotation arrangement will be put to shareholders for approval at the forthcoming Annual General Meeting.

Both the Board and the management have clearly defined authorities under various internal control and checks-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objective and business development plans, monitoring the performance of the senior management and assuming responsibility for corporate governance. The management, under the leadership of the CEO, is responsible for implementing these strategies and plans. To ensure effective discharge of the Board's management submits reports on the Company's operations to the Board on a regular basis. The Board reviews the business plans and financial reports in assessing and monitoring the performance of the management. Directors have access to management and are welcome to request for explanations, briefings or informal discussions on the Company's operations or business issues

The Board held a total of six board meetings during the year and up to the date of this report. Of these, three meetings were held to approve the 2004 final results and 2005 interim and final results of the Company; the other three meetings were held for the appointment of an independent non-executive director and to consider financial and operating performances of the Group and corporate governance issues of the Company. The Chief Financial Officer and Company Secretary attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

To illustrate the attention given by the Board to the oversight of the Company's affairs, we set out details of the directors' attendance at the board meetings during the year and up to the date of this report in the following tables. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

Date of board meeting	**Total no. of directors**	**No. of directors present**	**Attendance rate**
8/7/2004	9	8	89%
3/12/2004	9	8	89%
17/12/2004	9	8	89%
3/5/2005	10	10	100%
20/6/2005	10	9	90%
13/7/2005	10	9	90%

Director	No. of board meetings attended/held in FY2005 and up to the date of this report
Executive Directors	
Mr. Chau Cham Wong, Patrick	6/6
Mr. Leung Yung	6/6
Mr. Tsang Kwong Chiu, Kevin	6/6
Mr. Cheng Kwan Ling	6/6
Mr. Man Kwok Keung	6/6
Independent Non-executive Directors	
Mr. Kwok Ping Ki, Albert	6/6
Ms. Susan So	4/6
Mr. Tang Yat Kan	5/6
Mr. Wong Yee Sui, Andrew	5/6
Mr. Mak Siu Wing, Clifford *(appointed on 17th December, 2004)*	2/3

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. At least 14 day's notice of a regular board meeting is given to all directors to give them the opportunity to attend. Board papers are dispatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present their papers and to take any questions or address queries that the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The proceedings of the Board at its meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to directors to speak, express their views and share their concerns.

Directors & Senior Management's Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding director's securities transactions. To ensure directors' dealing in the securities of the Company are conducted in accordance with the Model Code.

In addition, the Board also established written guidelines on not less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

Chief Financial Officer ("CFO")

The CFO is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. The CFO is accountable to the Chairman of the Audit Committee and maintains regular communications with the external auditors. The CFO also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management. The CFO is also responsible for overseeing the Group's investors' relation activities.

Company Secretary

The Company Secretary is responsible directly to the Board. All directors have easy access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure requirements of notifiable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws. The Company Secretary, being the primary channel of communications between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value. In addition, on a timely basis, the Company Secretary will provide the directors with information, update and continuing professional development on legal, regulatory and other continuing compliance obligations for being directors of a listed company.

Board Committees

To assist the Board in discharge of its duties, the Board is supported by four board committees which consists of directors and members of senior management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Audit Committee comprises 4 members and is chaired by Mr. Wong Yee Sui, Andrew. Other members are Mr. Mak Siu Wing, Clifford, Mr. Kwok Ping Ki, Albert and Mr. Tang Yat Kan. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting, legal and finance areas. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified

Public Accountants and the code provisions set out in the Corporate Governance Code. The Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the CFO, Company Secretary and the internal auditor are directly accountable to the Chairman of the Audit Committee.

The Committee met twice during the year with the senior management and the internal and external auditors to review the accounting principles and practices adopted by the Group and other financial reporting matters, ensure the completeness, accuracy and fairness of the financial statements of the Company, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

(2) Risk Management Committee

The Risk Management Committee comprises 3 members, a majority of whom are independent non-executive directors, and is chaired by an independent non-executive director of the Company. It provides independent support to the Board to review financial and financial-related matters as well as issues regarding the management and operations of the Company. Such reviews include but are not limited to the following: all financing transactions of the Group, issuance of shares and share repurchase; major contracts and variations; major investments, acquisitions and disposals, etc.

(3) Nomination Committee

The Nomination Committee comprises 3 members, a majority of whom are independent non-executive directors, and is chaired by Mr. Kwok Ping Ki, Albert, an independent non-executive director of the Company. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

(4) Remuneration Committee

The Remuneration Committee comprises 3 members, a majority of whom are independent non-executive directors, and is chaired by Mr. Tang Yat Kan, an independent non-executive director of the Company. It reviews and determines the policy for the remuneration of directors and senior management.

The above board meetings have scheduled to meet regularly every year. The board committees report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and the records are well maintained.

Internal Control and Internal Audit

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorization and the accounting records are reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company established an Internal Audit Department, the key tasks of which include:

- review of all aspects of the Group's activities and internal controls with unrestricted right of access;
- conduct comprehensive audits of the practices and procedures, income and expenditure, and internal controls of all business units of the Group on a regular basis;
- conduct special reviews and investigations of areas of concern identified by management.

The head of the Internal Audit Department reports directly to the CEO and the Chairman of the Audit Committee and attends all audit committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

Investor Relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

Communication with Shareholders

The Company attaches great priority to communicate with shareholders and investors. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.peacemark.com.

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholder's queries. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. The Company supports the Corporate Governance Code's principle to encourage shareholders participation.

Code of Conduct

To enhance the ethical standards of employees, the Company has employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. The employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

Conclusion

The Company believes that corporate governance principles and practices must remain relevant in a changing world, thus it continues its ongoing effort to review its corporate governance practices from time to time so as to meet the changing circumstances. It will try its best to maintain, strengthen and improve the standard and quality of the Company's corporate governance.

As a reputable manufacturer and distributor in the timepiece industry, people are our most valuable asset. We recognize both individual and teamwork as our drive for long-term success along with a culture that emphasize harmony, excellence, and quality in our business.

The following traits define our "people come first" mentality

Communication, Continuous Improvement and Commitment

Peace Mark's 3rd Annual Residential Seminar was held on June 5th, 2004 in the world renowned Mission Hills Golf Club, Shenzhen. The goal of our previous years' gathering was to deliver the importance of "commitment" to our employees. The event has been organized to influence our people of similar values and to promote social harmony. Representatives from Peace Mark's subsidiaries along with our 150 employees of the Hong Kong office attended the annual event.

In addition, our newsletter, "Peace Mark Voice" acts as another communication tool for our people. Published on a monthly basis, we hope to keep employees up to date with the development of the company.

Career Training and Development

Peace Mark believes that people development is fundamental to our business and ongoing growth. Therefore, we continually support the expertise of our people by providing various training and development, such as seminars, workshops and academic courses. These programs not only strengthen employees' core competencies but also motivate them to enhance personal career development.

Compensation and Benefits

In order to attract and retain the best employees, Peace Mark has always made an ongoing effort to enhance individuals' work life balance. Apart from the basic benefits, such as paid holidays and healthcare coverage, the following benefits are available to help employees stay healthy and meet their financial goals.

- Birthday parties held monthly
- Recreational activities and annual sports day
- Free body checkup for our China employees
- New cafeteria and library in our China dormitories
- Incentive Share Scheme

Social Responsibilities

The people of Peace Mark take very seriously their contribution to the community. Our members have supported numerous community programs through donations and various kinds of sponsorship including, but not limited to,

1. Charitable Walk for the Career Skill Enhancement Scheme

   The purpose of the charitable walk fund raising campaigns is to increase general public's awareness and understanding of the scheme, promote the 'self enhancement, life-long education' ideas, provide an opportunity for individuals to participate in a meaningful event, and raise funds for Community Chest and help the needy in the society.

2. Hampers Campaign for Tung Wah Group of Hospitals

   As a special way of contribution, we forwarded our donations from the Hong Kong Watch and Clock Fair to Tung Wah Group's fundraising event. Instead of receiving numerous flower hampers, we collected hamper money from the supporting companies and put it towards the fundraiser.

3. Recruitment Fair

   In order to promote the watch industry and attract young talents, Peace Mark attends annual job recruitment fair organized by Vocational Training School and Hong Kong Watch Manufacturers Association Ltd.

Our senior management acts as role models, demonstrating their caring spirit to the community by having made time and personal donations to various charitable organizations. They encourage employees to participate in social activities and fund raising campaigns, such as the recent Hong Kong Red Cross South Asia Relief Fund for tsunami victims and affected areas.

DIRECTORS AND **SENIOR MANAGEMENT PROFILES**

Peace Mark (Holdings) Ltd.

MR. CHAU Cham Wong, Patrick
Chairman

56, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Mr. Chau has over 31 years experience in the timepiece industry. He served as the director of the Hong Kong Watch and Clock Manufacturing Association from 1984 to 1993 and as the co-chairman of the Hong Kong Watch and Clock Fair. He was also the former advisor and the committee member of the Hong Kong Watch and Clock Trade advisory Council to the Hong Kong Trade Development Council. He has been with the Group for over 13 years.

Peace Mark (Holdings) Ltd.

MR. LEUNG Yung
Chief Executive Officer

57, is responsible for the Group strategic planning, business development, marketing and product research and development, as well as coordinating overall business operations. He joined the Group since it was founded and has over 38 years experience in the timepiece industry. He is the President of the Hong Kong Watch Manufacturers Association Limited.

Peace Mark (Holdings) Ltd.

MR. TSANG Kwong Chiu, Kevin
Chief Financial Officer

38, is responsible for the accounting and overall financial management, corporate finance, internal audit and investor relations function of the Group. Mr. Tsang holds a Master of Business Administration degree from the University of Hull and a Master degree in Electronic Commerce and Internet Computing from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Insuitute of Certified Public Accountants. He is also a member of the Hong Kong Institute of Directors. Mr. Tsang has more than 16 years experience in accounting and finance.

Peace Mark (Holdings) Ltd.

MR. MAN Kwok Leung
Technical Director

58, is responsible for product engineering in the PRC. Mr. Man holds a Bachelor's degree in Civil Engineering from the University of Calgary, Canada and has more than 22 years experience in production management in the timepiece industry. He has been with the Group since it was founded.

Peace Mark (Holdings) Ltd.

MR. CHENG Kwan Ling
Director

54, is responsible for the general management and finance of the Group's operations in the PRC. Mr. Cheng holds a diploma in Management Association and is a member of the British Institute of Management. He has over 31 years experience in accountancy and general management and has been with the Group for over 16 years.

MS. SO, Susan

Independent Non-executive Director

52, is the Managing Director of Guo Ye Holdings Co., Limited and Guo Ye Enterprises Limited the principal activities of which are investment holding and the provision of investment consultancy services covering, among others, telecommunication, media, energy supply in the PRC. Ms. So has extensive management experience in relation to trade and investment projects (including information technology, sales and marketing) in the PRC. She has been a consultant of various companies in USA and PRC.

Peace Mark (Holdings) Ltd.

MR. KWOK Ping Ki, Albert

Independent Non-executive Director

71, is a former Director of the Electrical and Mechanical Services of the HKSAR Government and retired in 1993. Mr. Kwok served as the Secretary and Director General of Hong Kong Institution of Engineers until February in 2002. He holds a Master of Business Administration degree. He has extensive experience in business administration and in engineering professional practice.

Peace Mark (Holdings) Ltd.

MR. TANG, Yat Kan

Independent Non-executive Director

55, is a partner of Messrs. King & Co., a firm of Solicitors & Notaries in Hong Kong and has been a Notary Public since 1991. He is a Solicitor of the Supreme Court of England and Wales, the Supreme Court of Hong Kong and the Supreme Court of Singapore. He has been in general legal practice for over 21 years and is experienced in the fields of conveyancing and civil litigation.

Peace Mark (Holdings) Ltd.

MR. WONG Yee Sui, Andrew

Independent Non-executive Director

56, is a partner of W. M. Sum & Co., a firm of Certified Public Accountants in Hong Kong. Mr. Wong holds a Master of Business Administration degree and is a Chartered Accountant and a fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Wong has extensive experience in the auditing and finance field in Hong Kong and overseas. He is also an independent non-executive director and chairman of the audit committee of Lai Fung Holdings Limited, a company listed in Hong Kong.

Peace Mark (Holdings) Ltd.

MR. MAK Siu Wing, Clifford

Independent Non-executive Director

63, is the Managing Director of TCW Asia Limited, the Asian subsidiary of the TCW Group (Trust Company of The West), which is a Los Angeles based investment management company. Mr. Mak holds a Master of Business Administration degree from New York University. He has extensive experience in investment management. Mr. Mak also serves as an advisor to SG Asset Management (Hong Kong) Limited, the asset management arm of the Societe Generale.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Peace Mark (Holdings) Ltd.

MR. CHANG, Eddy
Financial Controller

40, is responsible for the finance and banking relationship of the Group. Mr. Chang holds a Bachelor's degree and a Graduate Diploma in Financial Management. He is a Certified Practising Accountant member of the Hong Kong Institute of Certified Public Accountants. Mr. Chang was appointed as a Justice of the Peace by Western Australia. He has more than 15 years experience in accounting and commerce. He has sucessfully completed the Postgraduate course in Corporate Goverance and accountability of CPA in Australia.

Peace Mark (Holdings) Ltd.

MS. FONG, Sams
Company Secretary and Assistant Financial Controller

30, is responsible for the Group's company secretarial matters, accounting as well as investor relations functions. Prior to joining the Company, Ms. Fong worked for an international accounting firm. She graduated with a Bachelor's degree in Accounting. Ms. Fong is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Peace Mark (Holdings) Ltd.

MR. KWEE, Raymond
Financial Controller, China

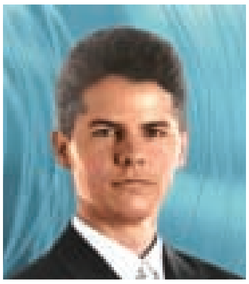
30, is responsible for the accounting and banking relationship functions for the Group's subsidiary companies in the PRC. He graduated with a Bachelor's degree in Managerial Statistics from the City University of Hong Kong. He has been with the Group for over 8 years.

Omni Watch & Clock Co., LLC.

MR. GEWIRTZ, Jonah
CFO

50, is responsible for the accounting and financial matters of the Group's US subsidiary. He graduated on the deans list, summa cum laude from Queen College with Bachelor's degree in Accounting. Prior to joining the group, he was the controller of the Cuyahoga Petroleum Group. He is a member of the American Institute of Certified Public Accountants.

Milus International S.A.



MR. TRIEBOLD, Oliver
Director

39, is responsible for the legal and compliance matters of the Group's Swiss operation. He holds a PhD in law, M.C.J. from New York University. He is also the Attorney at law admitted to the Bar of Zurich.

Peace Mark (Holdings) Ltd.

MS. LAI, Cherry
Corporate Communications Manager

31, is responsible for media relations activities, corporate events as well as managing the Group's investor communications campaigns. Prior to joining the Group, she worked as a financial reporter for a Hong Kong based financial newspaper. She holds a Master degree in Marketing from Stirling University.

Peace Mark (Holdings) Ltd.

MR. NG, Bernie
Human Resources Manager

39, is responsible for all the human resources management of the Group. Mr. Ng holds a Master degree in Human Resources Management from the Hong Kong Polytechnic University and has more than 11 years experience in Hong Kong and China human resources management. He is the member of the Hong Kong Institute of Human Resources Management.

DIRECTORS AND **SENIOR MANAGEMENT PROFILES**

Chongqing Meida Enterprise Co., Ltd.

MR. MA, Xiao Di
CEO

54, is responsible for managing and developing new business opportunities for the group's retail operations within the western China markets. Mr. Ma graduated from South Western University of China and has a degree in Finance and Economics. He is a member of the 15th and 16th National People's Congress representative in the Yu Chong District and also serves in numerous business and government related councils and organizations in the Yu Chong District.

Mega Chains (China) Ltd.

MR. HO, Curtis
General Manager

43, , is responsible for operating "TimeZone" a watch retail network covering 45 major cities in mainland China. Mr. Ho holds a Master of Business Administration degree from the Heriot-Watt University. He has over 20 years' experience and exposure in retail and distribution network establishment over the region including Hong Kong, China and the Pacific rim.

Shenzhen Dayuen Watches Co., Ltd.

MR. CHEUNG, Wai Hung
CEO

48, is the CEO of the Group's subsidiary, which operates a China watch distribution network covering over 200 points of sale distributing and retailing timepiece products. Mr. Cheung has extensive experience and exposure in distribution and logistic management of timepiece products in China.

Solomon Watch & Jewellery Co., Ltd.

MR. KWOK, Samuel
General Manager

40, is responsible for the business development of the luxury watch retail market in China. Mr. Kwok holds a Master of Business Administration degree from the University of Paisley and a PhD in Management jointly from the European University of Ireland and University of International Business and Economics of Beijing. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has more than 10 years experience in accounting and finance and has extensive experience in luxury timepiece and jewellery market in the PRC.

Goldsmith Timepieces Co., Ltd.

MS. YIM, JENNY
General Manager

53, is responsible for the Group's China sales and distribution development. She has over 27 years expertise in timepiece production management and retail development. Prior to joining the Group, Ms. Yim was the Chief factory manager of a state owned enterprise namely 上海手錶二廠.

Epoch World Co., Ltd.

MR. HSIEH, Stephen
CEO

47, is responsible for the brand name and retail outlets development of the Taiwanese subsidiary. He has 22 years experience in brand development and wholesale distribution. He also has over 6 years experience in developing retail outlets.

Peace Mark Ltd.

MR. CHONG, Jonathan
Assistant General Manager, Regional China

38, is responsible for managing and developing new business opportunities for the Group's China retail operations. He is also responsible for the development of the Group's POS information system. Mr. Chong holds a Bachelor's degree in Commerce from Saint Mary's University. He began his career as a financial analyst with Revlon, and then joined the Esprit Group to develop the Red Earth brand in Hong Kong. Prior to joining the Group, he was with Le Saunda Group to develop a new cosmetic brand in China and was responsible for image building and product sourcing to the retail operation.

Omni Watch & Clock Co., LLC.

MR. SCHNECK, Robert

CEO

57, is responsible for the overall business development for the U.S. subsidiary. Mr. Schneck has over 36 years experience in the timepiece importing and distribution industry and was the recipient of several "Vendor of the Year" Awards. He also serves as the Chairman of the United States Watch Council Membership Committee.

Omni Watch & Clock Co., LLC.

MR. FABBRI, Terence

Sales Manager

54, is based in both Bentonville, Arkansas and Hong Kong and is directly responsible for development of new merchandising program with Wal-Mart Stores and other key retailers in the United States. Prior to joining the Group, Mr. Fabbri served as Vice President of Timex Watch Co. Mr. Fabbri has over 25 years of marketing and management experience specific to the timepiece industry.

Peace Mark Ltd.

MR. CHAN, Gary

Head of Marketing

36, is responsible for the timepiece marketing function, in particular the US market, of the Group. He has over 14 years experience in the timepiece industry. He has been with the Group for over 10 years.

Peace Mark Ltd.

MR. TAI, Terry

Head of Brand Name Division

54, is responsible for the business development of the brand name division of the Group. He is a former Director (1992-1995) of the Federation of Hong Kong Watch Traders and Industries Ltd. And is also an organizing committee member of HK Watch Q Mark. He has over 34 years experience in the timepiece industry.

Peace Mark Ltd.

MS. SHING, Money

Marketing Manager

32, is responsible for the timepiece marketing function, in particular the US market. She has been with the Group for over 8 years.

Peace Mark Ltd.

MR. WONG, Eddie

Marketing Manager

46, is responsible for the OEM business of Japan and part of the European market. He has 10 years experience in the related business.

Peace Mark Ltd.

Mr. HECKS, Hardy

Consultant of Business Development

61, graduated from the Academy of Business in Duesseldorf, Germany. He is an advisor to the board of directors for business development and marketing in Central Europe. He has 34 years experience in the timepiece industry in Asia.

MARKETING & DISTRIBUTION

US+OEM/ODM Sales & Marketing

DIRECTORS AND **SENIOR MANAGEMENT PROFILES**

Milus International S.A.

MR. EDÖCS, Jan

CEO

34, is responsible for the business development and marketing of the Milus brand. Prior to joining the Group, he was the Sales-Marketing Director (Switzerland) and International Sales Manager of VERSACE S.A..

Milus International S.A.

MS. SIEBER, Barbara

Marketing Director

38, is responsible for developing brand positioning and marketing strategies for the brand. Prior to joining the Group, she was the Marketing Director of Flik Flak – Swatch Group and Visual Marketing Manager of Swarovski.

Milus (Far East) Ltd.

MR. CHAU, Quinton

Director

25, is responsible for the business development and brand positioning of Milus in the Far East region. Prior to joining Milus, he was the Group's Head of Corporate Communications. He graduated deans list, cum laude from the University of San Francisco with a Bachelor's degree in Finance and has received over 150 hours in corporate governance training. He is the son of the Chairman.

Milus Germany GmbH

MR. KOHLERMANN, Philipp

Director

40, is responsible for the business development and brand positioning of Milus in Germany and Austria. Prior to joining the Group, he was CEO of Luxury Brand International and Sales Director for Charriol Watches and D'Arsy in Germany, Austria, Benelux and Scandinavia.

Peace Mark France (Representative Office)

MR. DE JAILLON, Hugues

CEO

49, is responsible for developing and managing new businesses within the EU region as well as other new markets. He holds a Bachelor's degree in Commerce and Law and has over 24 years experience in China trade, and headed numerous operations related to import, export and manufacturing.

Peace Mark France (Representative Office)

MR. JOURDAIN, Bruno

Vice President, Marketing

44, is responsible for the development and the marketing of Peace Mark activities in France. Prior to joining the Group, he worked for 15 years in the watch industry as Product Manager for MAIER SA in France and Watch Department Manager for COMOTEC Far East Ltd. in Hong Kong.

Peace Mark Ltd.

MR. BOETTO, Marcello

Vice President, Marketing

44, is responsible for representing Peace Mark in Italy, Greece, Spain, and Portugal. He is also in-charge of developing, managing, and marketing the OEM business in Europe. Prior to joining the Group, he was marketing and product consultant for several Italian watch companies interacting with the brand customers and suppliers in Asia and Switzerland. He has over 20 years experience in the timepiece industry.

Peace Mark Ltd.

MR. LEUNG, Winson

Chief Factory Manager

48, is responsible for managing the watch production and the development of our watch repair school in Shenzhen, the PRC. Mr. Leung holds a certificate in watch repairing from Lee Wai Lee Technical Institute in Hong Kong. He has over 26 years experience in product management in the timepiece industry. He has been with the group for over 19 years. He is the brother of the CEO.

Timetech Industrial Ltd.

MR. FUNG, Charles

General Manager

40, is responsible for the timepiece marketing function, in particular the Japanese and European market, of the Group. He has over 23 years experience in the timepiece industry and 12 years experience in the field of timepiece production engineering.

Watchsmith Timepieces Servicing Co., Ltd.

MR. LEUNG, David

CEO

62, is responsible for overseeing the service center network. Having worked over 21 years in one of the world's largest watch group, he brings on board experience in different sectors of the watch industry including technical training, marketing and manufacturing of watches and movements. His past credentials includes VP of Hong Kong Watch Manufacturers Association and Permanent Honorary Director of Federation of Hong Kong Watch Clock industry.

Peace Mark Ltd.

MR. YIP, Samuel

Operation Manager

51, is responsible for managing the timepiece operation of the Group. Mr. Yip is also the management representative of ISO 9001 ensuring the Group's continuing compliance of the ISO 9001 standard. He has over 21 years experience in the timepiece industry and has been with the Group for over 11 years.

Peace Mark Ltd.

MR. CHAN, Anthony

Assistant Operation Manager

34, is responsible for the improvement of the quality management system. Mr. Chan monitors and co-ordinates the daily operation of marketing, purchasing, production and logistics departments. He holds a master's degree in Urban Planning and has been with the group for over 8 years.

Peace Mark Ltd.

MR. LIU, Ken

Chief Designer

31, is responsible for the Group's product design development, management and training for the OEM/ODM design division. He graduated in Commercial Design from Hong Kong Vocational Training Centre and also holds various certificates relating to jewellery and timepiece design, appraisal, and production. His designs and creations has won the Group numerous awards and recognitions. Mr. Liu has over 12 years experience in the trade and product exhibition, jewellery and timepiece design development and has been with the Group for over 9 years.

Peace Mark Ltd.

MR. WONG, Ronald

Senior Designer

33, is responsible for the Group's product design development projects. He holds Bachelor's degree in Product Design and Analysis, and Arts and Design. Prior to joining the group, he worked in the timepiece design consultant field and as a toys and electronic product designer. He has over 11 years experience in the product design development.

Milus International S.A.

MR. JUNOD, Paul

Independent Design Consultant

48, is a ETS Micro-technical Engineer and creates and develops very outstanding and innovative watch collections. Mr. Junod's designs have won numerous awards and stand for uncompromising creativity.

Peace Mark Ltd.

MR. TAKEHIKO, Emi

Production Engineer

61, is in charge of managing quality control issues and operational issues for the assembly plant in China. He is also responsible for technical support and staff training. Mr. Takehiko holds a Bachelor's degree in an Electrical and Mechanical Engineering from Kagoshima University. He has over 37 years of experience in production management and over 16 years related experience in the timepiece industry. He has been with the group for over 7 years.


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

financial statements 2005

PEACE MARK

CONTENTS

The Directors are pleased to present their report and the audited consolidated financial statements of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended 31st March, 2005.

Principal Activities

The Company is an investment holding company. Details of the principal activities of the Group's principal subsidiaries are set out in note 17 to the financial statements.

Segment Information

An analysis of the Group's segment information is set out in note 4 to the financial statements.

Results and Appropriation

Details of the results of the Group for the year ended 31st March, 2005 are set out in the consolidated income statement on page 13 of this report and the accompanying notes to the financial statements.

The directors declared an interim dividend of HK2.2 cents per share, totaling HK$18,574,000, which was paid on 31st December, 2004.

The directors recommended the payment of a final dividend of HK2.8 cents per share, totaling approximately HK$24,532,000, which is payable on 12th September, 2005.

Five-Year Financial Summary

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group as at the end of the last five financial years is set out on page 56 of this report.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 17 of this report.

Movements in the reserves of the Company during the year are set out in note 29 to the financial statements.

Distributable Reserves

As at 31st March, 2005, the reserves of the Company available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$452.2 million. In addition, the share premium of the Company, in the amount of approximately HK$339.5 million, may be distributed in the form of fully paid bonus shares.

Donations

During the year, the Group made charitable and other donations totaling approximately HK$447,000.

Fixed Assets

Details of the movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

Borrowings

Details of the Group's and the Company's borrowings and obligations under finance leases are set out in note 25 and note 26 to the financial statements respectively.

Retirement Scheme Benefits

Details of retirement scheme benefits are set out in note 34 to the financial statements.

Post Balance Sheet Event

Details of the post balance sheet event of the Group which took place subsequent to 31st March, 2005 and up to the date of the report are set out in note 39 to the financial statements.

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Chau Cham Wong, Patrick *(Chairman)*
Mr. Leung Yung *(Chief Executive Officer)*
Mr. Tsang Kwong Chiu, Kevin *(Chief Financial Officer)*
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)

In accordance with article 86(2) of the Company's Bye-laws, Mr. Mak Siu Wing, Clifford, who was appointed by the Board of Directors, shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election. Pursuant to articles 87(1) and 87(2) of the Company's Bye-laws, Mr. Cheng Kwan Ling and Ms. Susan So shall retire and offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and of the senior management of the Group are set out on pages 35 to 42 of the annual report.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 24th August, 2005 to Friday, 26th August, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final 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 at 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 Tuesday, 23rd August, 2005.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group, which is not terminable by the Group within one year without payment of compensation, other than normal statutory compensations.

Directors' Interests in Contracts

No contract of significance to which the Company nor any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Securities

As at 31st March, 2005, the interests 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 the Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total interests	Percentage of total issued share capital
Chau Cham Wong, Patrick	65,631,077	–	296,840,459	28,416,795 *(Note 1)*	390,888,331	45.03
Leung Yung	–	–	325,257,254	65,631,077 *(Note 2)*	390,888,331	45.03
Tsang Kwong Chiu, Kevin	98,353	–	–	–	98,353	0.01
Cheng Kwan Ling	293,904	–	–	–	293,904	0.03
Tang Yat Kan	500,000	240,000 *(Note 3)*	–	–	740,000	0.08

Notes:

1. A placing and subscription arrangement was completed in April 2004 (the "Placing and Top Up") whereby Chau Cham Wong, Patrick and other entities controlled by him and Leung Yung, namely, A-One Investments Limited and United Success Enterprises Limited (the "Vendors") were parties acting in concert for the purposes of section 317 of the SFO. Chau Cham Wong, Patrick was deemed to be interested in 28,416,795 shares representing the deemed interests of the other Vendor, United Success Enterprises Limited pursuant to section 317 of the SFO. As a result of the foregoing, Chau Cham Wong, Patrick was deemed to be interested in a total of 390,888,331 shares of the Company.

2. Leung Yung has 49.55% voting control of A-One Investments Limited and 100% voting control of United Success Enterprises Limited, 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 pursuant to section 317 of the SFO. Consequently, Leung Yung was deemed to be interested in a total of 390,888,331 shares of the Company.

3. Tang Yat Kan was deemed to be interested in 240,000 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 31st March, 2005, 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 year ended 31st March, 2005, none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right 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 of the Company (the "Scheme") adopted on 24th January, 2002. Details of the Scheme are set out in note 30 to the financial statements.

Share Incentive Scheme

On 13th December, 2004, the Company adopted a share incentive scheme (the "Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly instalments. Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

Eligible persons will not be able to dispose Shares purchased under the Scheme immediately following their purchase. Those selected eligible persons who opt to pay for their Shares in one lump sum will be able to dispose their Shares after one year, while those who opt to pay for their Shares in installments will be able to dispose their Shares over a period of time commencing after one year and ending when they make their final instalment payment.

The Company has obtained a loan in the amount up to HK$50 million from a bank for the purpose of financing the operation of the Scheme. Shares to be purchased pursuant to the Scheme will be purchased on behalf of the eligible persons by the custodian. The custodian will hold the Shares on behalf of the eligible persons until they are permitted under the rules of the Scheme to dispose of their Shares.

The aggregate number of Shares to be offered under the Scheme shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the Scheme shall not exceed HK$50 million.

Directors' Rights to Acquire Shares or Debentures

Apart from the share option scheme as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements that enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Substantial Shareholders

As at 31st March, 2005, the following persons (other than directors of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Interests in the Company

Name of substantial shareholder	**Number of Shares in which interested**	**Percentage of issued share capital**
United Success Enterprises Limited ("United Success")	390,888,331 *(Note 1)*	45.03
A-One Investments Limited ("A-ONE")	390,888,331 *(Note 2)*	45.03
Arisaig Greater China Fund Limited ("Arisaig")	87,240,119 *(Note 3)*	10.05
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	87,240,119 *(Note 4)*	10.05
Cooper Lindsay William Ernest ("Mr Cooper")	87,240,119 *(Note 5)*	10.05

Notes:

1. United Success was wholly-owned by 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 390,888,331 shares of the Company pursuant to section 317 of the SFO.

2. Chau Cham Wong, Patrick controlled 50.45% and Leung Yung controlled 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 390,888,331 shares of the Company pursuant to section 317 of the SFO.

3. This represented a direct holding by Arisaig of the shares of the Company.

4. Arisaig Mauritius was the investment manager of Arisaig. This represented an interest in and the shares arising by virtue of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO.

5. Mr Cooper was deemed 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 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 31st March, 2005.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

Directors' and Officers' Liability Insurance

Directors' and officers' liability insurance was maintained during the year.

Purchase, Sale or Redemption of Shares

During the year, the Company repurchased its own shares through the Stock Exchange as follows and all these shares were duly cancelled:

Month of purchase	Number of ordinary shares of HK$0.1 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
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's listed securities during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Disclosure under Rule 13.18 of Chapter 13 of the Listing Rules

In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 22nd April, 2005 relating to a term loan and revolving credit facility in an aggregate amount of HK$630,000,000 (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

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

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

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, ABN AMRO Bank N.V. 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.

Connected Transactions

The details of the transactions made during the year were set out in note 13 to the financial statements according to the Listing Rules.

Major Customers and Suppliers

For the year ended 31st March, 2005, the five largest ultimate customers to whom the goods were exported by the Group together accounted for not more than 40% of the Group's turnover for which the largest ultimate customer accounting for not more than 10%, and the five largest suppliers of the Group accounted for not more than 80% of the Group's purchases for which the largest supplier accounting for approximately 20%.

Save as disclosed above, none of the Directors, their associates nor any shareholder who, to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the five largest suppliers or customers.

Model Code For Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by directors of listed companies on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), and have made enquiries with the directors that they have complied with the Model Code.

Corporate Governance

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 year ended 31st March, 2005, 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 (the "Listing Rules") except that independent non-executive directors are not appointed for a specific term but they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's Bye-laws. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the Independent non-executive directors is independent to the Company.

Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed on internal controls and financial reporting matters including a review of the audited financial statements for the year ended 31st March, 2005. The audit committee comprises four independent non-executive directors of the Company, Mr. Wong Yee Sui, Andrew, Mr. Mak Siu Wing, Clifford, Mr. Kwok Ping Ki, Albert and Mr. Tang Yat Kan.

Auditors

The financial statements for the year ended 31st March, 2005 were audited by Messrs. Chu and Chu, Certified Public Accountants. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to reappoint them as auditors.

On behalf of the Board

Chau Cham Wong, Patrick
Chairman

Hong Kong
13th July, 2005

朱永昌
朱國正 會計師事務所
CHU and CHU
Certified Public Accountants
A Member of AGN International

AGN INTERNATIONAL

To the Shareholders of

Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 13 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion soley to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Chu and Chu
Certified Public Accountants

Hong Kong
13th July, 2005

CONSOLIDATED **INCOME STATEMENT**

FOR THE YEAR ENDED 31ST MARCH, 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	5	**1,937,947**	1,434,492
Cost of sales		**(1,398,828)**	(1,089,082)
Gross profit		**539,119**	345,410
Other revenue	5	**22,864**	11,639
Selling and distribution expenses		**(181,738)**	(118,012)
Administrative and general expenses		**(188,171)**	(114,101)
Other operating expenses		**(11,096)**	(16,646)
Profit from operations	6	**180,978**	108,290
Share of (loss) profit of an associate		**(357)**	321
Share of loss of a jointly controlled entity		**(929)**	(2,998)
Finance costs	7	**(27,439)**	(18,155)
Profit from ordinary activities before taxation		**152,253**	87,458
Income tax	9	**(23,158)**	(206)
Profit after taxation		**129,095**	87,252
Minority interest		**(5,284)**	(7,247)
Profit attributable to shareholders	10	**123,811**	80,005
Dividends	11	**43,106**	27,958
Earnings per share	12		
Basic (HK cents)		**14.89**	12.43
Diluted (HK cents)		**14.48**	12.09

The notes on pages 20 to 54 form part of these financial statements.

CONSOLIDATED **BALANCE SHEET**

AS AT 31ST MARCH, 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	14	**483,167**	383,668
Intangible assets	15	**53,629**	56,532
Goodwill	16	**147,995**	60,052
Interest in an associate	18	**65,375**	65,680
Interest in a jointly controlled entity	19	**15,640**	10,922
Investments in securities	20	**16,768**	15,600
Other financial assets	21	**29,225**	29,225
Deferred tax assets	27	**12,577**	12,272
		824,376	633,951
Current assets			
Inventories	22	**513,300**	309,909
Trade and other receivables	23	**395,440**	397,473
Cash and bank balances		**666,167**	467,491
		1,574,907	1,174,873
Current liabilities			
Trade and other payables	24	**220,094**	142,451
Interest-bearing borrowings	25	**671,570**	382,016
Obligations under finance leases	26	**2,918**	3,233
Tax payable		**21,974**	8,969
		916,556	536,669
Net current assets		**658,351**	638,204
Total assets less current liabilities		**1,482,727**	1,272,155
Non-current liabilities			
Interest-bearing borrowings	25	**269,140**	421,450
Obligations under finance leases	26	**1,651**	3,209
Deferred tax liabilities	27	**15,314**	9,419
		286,105	434,078
Minority interest		**84,812**	60,178
Net assets		**1,111,810**	777,899

	Note	2005 HK$'000	2004 HK$'000
Capital and reserves			
Share capital	*28*	**86,808**	69,075
Reserves	*29*	**1,025,002**	708,824
		1,111,810	777,899

The notes on pages 20 to 54 form part of these financial statements.

Approved and authorized for issue by the Board of Directors on 13th July, 2005, and signed on its behalf by:

Chau Cham Wong, Patrick
Chairman

Leung Yung
Chief Executive Officer

BALANCE **SHEET**

AS AT 31ST MARCH, 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Interest in subsidiaries	17	**1,219,800**	1,057,461
Current assets			
Other receivables		**100**	100
Cash and bank balances		**63,626**	12,452
		63,726	12,552
Current liabilities			
Accruals and other payables		**395**	727
Interest-bearing borrowings	25	**182,600**	45,350
		182,995	46,077
Net current liabilities		**(119,269)**	(33,525)
Total assets less current liabilities		**1,100,531**	1,023,936
Non-current liabilities			
Interest-bearing borrowings	25	**222,050**	404,650
Net assets		**878,481**	619,286
Capital and reserves			
Share capital	28	**86,808**	69,075
Reserves	29	**791,673**	550,211
		878,481	619,286

The notes on pages 20 to 54 form part of these financial statements.

Approved and authorized for issue by the Board of Directors on 13th July, 2005, and signed on its behalf by:

Chau Cham Wong, Patrick
Chairman

Leung Yung
Chief Executive Officer

CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31ST MARCH, 2005

	Note	**2005** **HK$'000**	2004 HK$'000
Shareholders' equity at the beginning of the year		**777,899**	675,522
Exchange differences on translation of the financial statements of foreign entities		**1,341**	782
Net profit for the year		**123,811**	80,005
Dividends declared or approved during the year		**(35,098)**	(21,035)
Movements in share capital and share premium:			
Issue of new shares for subscription	28	**12,650**	–
Issue of new shares pursuant to the exercise of share options		**–**	198
Issue of new shares pursuant to the exercise of warrants	28	**4,330**	4,328
Issue of new shares as scrip dividend, in lieu of cash	28	**833**	1,459
Shares repurchased and cancelled	28	**(80)**	–
Net share premium increase		**226,124**	36,640
		243,857	42,625
Shareholders' equity at the end of the year		**1,111,810**	777,899

The notes on pages 20 to 54 form part of these financial statements.

CONSOLIDATED **CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31ST MARCH, 2005

	Note	2005 HK$'000	2004 HK$'000
Operating activities			
Profit from ordinary activities before taxation		**152,253**	87,458
Adjustments for:			
Depreciation of property, plant and equipment		**64,590**	38,698
Amortization of goodwill		**9,074**	2,825
Impairment loss of goodwill		**12,575**	–
Amortization of intangible assets		**3,093**	4,380
Interest expenses		**27,439**	18,155
Interest income		**(8,590)**	(4,761)
Loss on disposal of a jointly controlled entity		**–**	1,764
Share of loss of a jointly controlled entity		**929**	2,998
Share of loss (profit) of an associate		**357**	(321)
Loss on disposal of property, plant and equipment		**56**	4,046
Realized gain on disposal of other investments		**–**	(600)
Operating profit before changes in working capital		**261,776**	154,642
Increase in inventories		**(172,174)**	(60,861)
Decrease (Increase) in trade and other receivables		**20,473**	(87,064)
Increase in trade and other payables		**51,995**	48,861
Increase in trust receipt loans		**15,227**	48,430
Cash generated from operations		**177,297**	104,008
Profits tax paid		**(6,403)**	(7,509)
Net cash inflow from operating activities		**170,894**	96,499
Investing activities			
Payment for purchase of property, plant and equipment		**(120,498)**	(68,861)
Proceeds from disposal of property, plant and equipment		**146**	248
Payment for acquisition of investment securities		**(500)**	(15,600)
Movement in amount due from a jointly controlled entity		**(5,647)**	(6,149)
Movement in amount due from an associate		**(1,705)**	6,338
Payment for purchase of subsidiaries, net of cash acquired	32	**(145,761)**	(52,890)
Payment for acquisition of other investments		**–**	(6,376)
Proceeds from disposal of other investments		**–**	6,768
Increase investment from minority shareholders		**3,164**	278
Exchange realignment		**511**	841
Interest received		**8,590**	4,761
Net cash outflow from investing activities		**(261,700)**	(130,642)

	Note	2005 HK$'000	2004 HK$'000
Financing activities			
Capital element of finance lease rentals paid		**(3,461)**	(2,141)
Interest element of finance lease rentals paid		**(437)**	(1,417)
Proceeds from subscription of new shares		**206,059**	–
Premium paid on repurchase of shares		**(930)**	–
Proceeds from shares issued under share option scheme		**–**	424
Proceeds from exercise of warrants		**28,142**	28,011
Nominal value of shares repurchased		**(80)**	–
Proceeds from bank loans		**344,885**	202,949
Repayment of bank loans		**(195,262)**	(89,208)
Proceeds from syndicated loan		**–**	380,000
Repayment of syndicated loan		**(38,000)**	(200,000)
Interest paid		**(27,002)**	(17,694)
2003 final dividend paid		**–**	(3,225)
Interim dividend paid		**(18,574)**	(3,609)
2004 final dividend paid		**(5,858)**	–
Net cash inflow from financing activities		**289,482**	294,090
Net increase in cash and cash equivalents		**198,676**	259,947
Cash and cash equivalents at the beginning of the year		**467,491**	207,544
Cash and cash equivalents at the end of the year		**666,167**	467,491

The notes on pages 20 to 54 form part of these financial statements.

FOR THE YEAR ENDED 31ST MARCH, 2005

1. GENERAL

Peace Mark (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 Business Combinations. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 "Business Combinations" applies to accounting for business combinations for which the agreement date is on or after 1st January, 2005. The Group did not have any major business combinations for which the agreement date is on or after 1st January, 2005 and accordingly, this HKFRS did not have any material impact on these financial statements for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The financial statements have been prepared in accordance with HKFRSs (which also includes Statement of Standard Accounting Practice and Interpretation) issued by the HKICPA, accounting principles generally accepted, the disclosure requirement of the Hong Kong Companies Ordinance, and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

The consolidated income statement includes the Group's share of the post-acquisition results of associates and jointly controlled entities for the year. In the consolidated balance sheet, interest in associates are stated at the Group's share of the net assets plus the goodwill/less the negative goodwill in so far as it has not already been amortized, less any identified impairment loss.

In the Company's balance sheet, the investments in associates and jointly controlled entities are stated at cost less impairment losses. The results of associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities acquired. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is capitalized and amortized on a straight-line basis over the shorter of its estimated useful life or 20 years. The amortization charge for each period is recognized as an expense.

Goodwill arising from transactions completed prior to 1st April, 2001 is written off directly against reserves and is reduced by impairment losses. Any impairment loss identified is recognized as an expense.

In respect of acquisitions of associates and jointly controlled entities, goodwill is amortized to income statement on a straight line basis over its estimated useful life. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses.

The profit and loss on disposal of a subsidiary or an associate is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortized.

(d) Investments in securities

(i) Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognized as an expense in the income statement. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-down or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments are measured at fair value with unrealized gains and losses included in net profit or loss for the year.

FOR THE YEAR ENDED 31ST MARCH, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment, other than plant and machinery under installation, are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item to working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalized as additional cost of the item.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 (Revised) "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives.

Freehold land	Nil
Leasehold land	Over the term of lease
Buildings	2% straight line method or over the term of lease whichever is shorter
Leasehold improvements	20% reducing balance method
Other assets	20% reducing balance method

The useful lives of assets and depreciation method are reviewed periodically.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sale proceeds and the carrying amount of the relevant item, and is recognized in the income statement.

(f) Plant and machinery under installation

Plant and machinery under installation is stated at cost less any impairment losses. Cost comprises direct and indirect costs of acquisition and installation. Installed items are transferred from plant and machinery under installation to other categories of property, plant and equipment. No provision for depreciation is made on these assets until such time as the relevant assets are installed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets mainly comprise the trademark, which is stated at acquisition cost and is amortized on a straight line basis over its expected future economic life of 20 years.

The amortization period and the amortization method are reviewed annually at each financial year end.

(h) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, intangible assets, interests in subsidiaries, interest in an associate and interest in a jointly controlled entity have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is firstly charged against the related revaluation reserve to the extent of the amount held in the revaluation reserve with any excess recognized as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

FOR THE YEAR ENDED 31ST MARCH, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(j) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or labilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, or
- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(k) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the dates of cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(l) Trade and other receivables

Provision is made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision.

FOR THE YEAR ENDED 31ST MARCH, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Provisions and contingencies

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(n) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income is recognised when the services are rendered.

Rental income under operating leases is recognized on a straight-line basis over the respective terms of the leases.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

Proceeds from disposal of other investments are recognized on a trade date basis when contracts are executed.

(o) Leases

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognizes finance leases as assets and liabilities in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Leases *(Continued)*

Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

(p) Off balance sheet financial instruments

Off balance sheet financial instruments arise from swap transactions undertaken by the Group in the interest rate and currency markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are recognized in the income statement. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profits or losses are recognized in the income statement on the same basis as those arising from the related assets, liabilities or net positions. Unrealized gains on transactions which are marked to market are included in "Trade and other receivables" in the balance sheet. Unrealized losses on transactions which are marked to market are included in "Trade and other payables".

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(ii) Pension obligations

The Group operates a number of defined contribution plans in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Share option scheme

The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

FOR THE YEAR ENDED 31ST MARCH, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

(t) Segments

A segment is a distinguished component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting policy, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interest.

4. SEGMENT INFORMATION

In accordance with its internal financial reporting policy, the Group has determined that business segments should be presented as primary reporting format. However, business segments are not presented because the Group's turnover and operating profit were contributed solely by manufacture, trading, distribution, retailing and related service income of timepiece products.

Geographical segments are presented as secondary reporting format, segment revenue is based on the final destination of goods sold.

4. SEGMENT INFORMATION *(Continued)*

Segment assets and capital expenditure are based on the geographical location in which the assets are located at the balance sheet date.

	2005			
		Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Americas	**855,550**	**151,554**	**241,254**	**1,730**
Asia (excluding China)	**438,525**	**68,320**	**1,074,381**	**35,065**
Europe	**301,678**	**45,849**	**43,979**	**3,507**
China	**342,194**	**91,658**	**986,040**	**81,684**
	1,937,947	**357,381**	**2,345,654**	**121,986**
Other revenue		**22,864**		
Unallocated expenses		**(199,267)**		
Finance costs		**(27,439)**		
Share of loss of an associate		**(357)**		
Share of loss of a jointly controlled entity		**(929)**		
Profit before taxation		**152,253**		
Unallocated assets			**53,629**	
Total assets			**2,399,283**	

	2004			
		Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Americas	788,970	123,358	222,741	9,106
Asia (excluding China)	354,962	55,811	1,045,417	47,064
Europe	229,519	36,089	27,494	701
China	61,041	12,140	456,640	113,161
	1,434,492	227,398	1,752,292	170,032
Other revenue		11,639		
Unallocated expenses		(130,747)		
Finance costs		(18,155)		
Share of profit of an associate		321		
Share of loss of a jointly controlled entity		(2,998)		
Profit before taxation		87,458		
Unallocated assets			56,532	
Total assets			1,808,824	

FOR THE YEAR ENDED 31ST MARCH, 2005

5. TURNOVER AND OTHER REVENUE

(a) Turnover

The principal activities of the Group are manufacturing, trading, distributing, retailing and related service of timepiece products.

Turnover represents the amounts received and receivable for goods sold, less discounts and returns, to outside customers during the year.

(b) Other revenue

	2005 HK$'000	2004 HK$'000
Interest income	**8,590**	4,761
Sale of scrapped materials	**670**	–
Exchange gain	**693**	–
Rental income	**485**	3,280
Net realized gains on other investments	**296**	600
Realized gains on financial instruments	**5,892**	–
Technical service income	**1,840**	–
Sundry income	**4,398**	2,998
	22,864	11,639

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging (crediting):

	2005 HK$'000	2004 HK$'000
Auditors' remuneration		
– Current year	**2,290**	1,190
– Under provision in prior years	**–**	10
Depreciation of property, plant and equipment		
– Owned assets	**62,312**	38,001
– Assets under finance leases	**2,278**	697
Amortization of intangible assets	**3,093**	4,380
Amortization of goodwill	**7,422**	2,825
Amortization of goodwill in an associate	**1,652**	–
Impairment loss of goodwill	**12,575**	–
Loss on write-down of inventories to net realizable value	**31,943**	4,398
Loss on disposal of property, plant and equipment	**56**	4,046
Loss on disposal of a jointly controlled entity	**–**	1,764
Staff costs, including directors' emoluments		
– Wages, salaries and benefits in kind	**108,996**	71,497
– Pension costs: defined contribution plans, net of forfeited contributions	**1,400**	1,209
Minimum lease payments in respect of properties under operating leases	**9,530**	3,230
Provision for bad debts	**18,853**	2,500

7. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
Term loans, syndicated loans and bank overdrafts wholly repayable within five years	**27,002**	17,982
Obligations under finance leases	**437**	173
	27,439	18,155

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the Directors' and the five highest paid employees' emoluments are as follows:

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 HK$'000	2004 HK$'000
Directors' fees:		
– Executive	**–**	–
– Non-executive	**–**	–
– Independent non-executive	**200**	310
	200	310
Other emoluments of Executive Directors:		
Salaries and other benefits	**3,500**	5,396
Pension scheme contributions	**156**	156
	3,656	5,552
	3,856	5,862

The emoluments of the Directors are within the following bands:

	2005 Number of Directors	2004 Number of Directors
Nil to HK$1,000,000	**9**	7
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	2
	10	10

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

During the year ended 31st March, 2005, the five highest paid individuals included two Directors (2004: three), details of whose emoluments are set out in note 8(a) to the financial statements above. The emoluments of the remaining individuals for the year are as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other benefits	**3,758**	2,258
Pension scheme contributions	**48**	280
	3,806	2,538

The emoluments of the three (2004: two) individuals with the highest emoluments are within the following bands:

	2005 **Number of individuals**	2004 Number of individuals
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**3**	2
	3	2

During the year, no remuneration was paid by the Group to any of the three (2004: two) highest paid, non-director employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. INCOME TAX

	2005 **HK$'000**	2004 HK$'000
(a) Income tax in the consolidated income statement represents:		
Current tax		
Hong Kong	**16,229**	9,791
The People's Republic of China (the "PRC")	**238**	–
Overseas	**1,101**	–
	17,568	9,791
Deferred tax		
Origination and reversal of temporary differences	**5,590**	(9,585)
	23,158	206

Hong Kong income tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

9. INCOME TAX *(Continued)*

(a) The PRC income tax has been provided at the rate of 15% to 33% on the assessable profits of the PRC subsidiaries. No provision for the PRC income tax had been made in last year. Some of the subsidiaries operating in the PRC has unused tax losses of HK$25,979,000 (2004: HK$903,000) available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of future profit streams. These unrecognized tax losses will expire before 2010.

Pursuant to the laws and regulations in the PRC, a PRC subsidiary in the Group is entitled to exemption from PRC income tax for two years commencing from the first profit-making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC income tax for the following three years.

(b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	**152,253**	87,458
Notional tax charge on profit before taxation, calculated at the applicable tax rate of 17.5% (2004: 17.5%)	**26,644**	15,305
Tax effect of income not taxable for tax purpose	**(9,371)**	(56,561)
Tax effect of expenses not deductible for tax purpose	**18,502**	56,173
Utilization of tax losses previously not recognized	**(10)**	(2,718)
Recognition of previously unrecognized tax losses	**(1,656)**	(5,320)
Recognition of unrecognized temporary difference	**28**	–
Tax effect of unused tax losses not recognized	**184**	210
Effect of different tax rates in other jurisdictions	**92**	1,769
Effect on income tax of concessionary rates for certain subsidiaries	**(12,545)**	(9,486)
Others	**1,290**	834
Actual tax expense	**23,158**	206

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders includes a profit of HK$50,436,000 (2004: HK$59,576,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim dividend paid of HK2.2 cents (2004: HK1.8 cents) per share	**18,574**	11,544
Final dividend proposed of HK2.8 cents (2004: HK2.0 cents) per share	**24,532**	16,414
	43,106	27,958

A final dividend in respect of 2005 of HK2.8 cents per share amounting to approximately HK$24,532,000 was proposed by the Board of Directors after the balance sheet date. The proposed dividend has not been accounted for as a liability until it is approved at the forthcoming Annual General Meeting.

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12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

	2005	2004
Profit attributable to shareholders (in HK$'000)	**123,811**	80,005
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	**831,722**	643,510
Potential dilutive shares		
Share options (in '000)	**18**	16
Warrants (in '000)	**23,421**	18,158
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	**855,161**	661,684
Basic earnings per share (HK cents)	**14.89**	12.43
Diluted earnings per share (HK cents)	**14.48**	12.09

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	**2005** ***HK$'000***	2004 *HK$'000*
Sale of finished goods to related companies	*(a)*	**12,134**	7,236
Rental for use of plant and machinery provided to and charged to a jointly controlled entity	*(b)*	**1,000**	1,000
Electroplating services provided by and respective fee charged by a jointly controlled entity	*(c)*	**–**	4,918
Electroplating services provided by and respective fee charged by a related company	*(c)*	**10,836**	6,727

Notes:

(a) Sale 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.

(b) The amount of the rental received from the jointly controlled entity was agreed between the transaction parties on arm's length basis.

(c) Fee for electroplating services provided by the jointly controlled entity and a related company was charged at prices and terms as agreed between the transaction parties.

14. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Plant and machinery under installation	Freehold and leasehold properties	Leasehold improve-ments	Plant and machinery	Other assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation						
As at 1st April, 2004	41,863	205,602	73,981	183,008	50,002	554,456
Additions	1,560	1,885	27,296	81,527	9,718	121,986
Acquisition of subsidiaries	596	–	12,826	5,913	22,329	41,664
Disposals	–	(407)	(34)	–	(1,616)	(2,057)
Exchange realignment	–	434	26	71	231	762
Reclassification	(44,019)	–	9,044	34,317	658	–
As at 31st March, 2005	**–**	**207,514**	**123,139**	**304,836**	**81,322**	**716,811**
Comprising						
At valuation	–	14,000	–	–	–	14,000
At cost	–	193,514	123,139	304,836	81,322	702,811
As at 31st March, 2005	**–**	**207,514**	**123,139**	**304,836**	**81,322**	**716,811**
Accumulated depreciation						
As at 1st April, 2004	–	18,917	33,890	95,115	22,866	170,788
Provided for the year	–	4,051	13,787	36,751	10,001	64,590
Eliminated on disposal	–	(407)	(4)	–	(1,444)	(1,855)
Exchange realignment	–	43	7	19	52	121
As at 31st March, 2005	**–**	**22,604**	**47,680**	**131,885**	**31,475**	**233,644**
Carrying amount						
As at 31st March, 2005	**–**	**184,910**	**75,459**	**172,951**	**49,847**	**483,167**
As at 31st March, 2004	41,863	186,685	40,091	87,893	27,136	383,668

One of the leasehold properties of the Group was revalued as at 31st March, 1995, on an open market value basis by Messrs. Jones Lang Wooton Limited, independent registered surveyors.

Had the leasehold properties of the Group been carried at historical cost less accumulated depreciation, their carrying amount as at 31st March, 2005, would have been approximately HK$180,528,000 (2004: HK$182,199,000).

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14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amount of properties held by the Group comprises:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Leasehold properties:		
Held in Hong Kong, medium-term leases	**15,231**	15,594
Held in PRC, medium-term leases	**162,212**	165,831
Freehold properties:		
Held outside Hong Kong	**7,467**	5,260
	184,910	186,685

As at 31st March, 2005, the carrying amount of the Group's property, plant and equipment held under finance leases was approximately HK$11,111,000 (2004: HK$2,594,000).

15. INTANGIBLE ASSETS

	Group
	Trademarks
	HK$'000
Cost	
As at 1st April, 2004	61,668
Exchange realignment	192
As at 31st March, 2005	**61,860**
Accumulated amortization	
As at 1st April, 2004	5,136
Provided for the year	3,093
Exchange realignment	2
As at 31st March, 2005	**8,231**
Carrying amount	
As at 31st March, 2005	**53,629**
As at 31st March, 2004	56,532

16. GOODWILL

	Group 2005 HK$'000	Group 2004 HK$'000
Cost		
At the beginning of the year	**63,253**	20,717
Additions	**107,940**	42,536
Impairment loss	**(12,575)**	–
At the end of the year	**158,618**	63,253
Accumulated amortization		
At the beginning of the year	**3,201**	1,336
Provided for the year	**7,422**	1,865
At the end of the year	**10,623**	3,201
Carrying amount		
At the end of the year	**147,995**	60,052

In the opinion of the Board of Directors, the underlying value of goodwill as at 31st March, 2005 was not less than its carrying amount.

17. INTEREST IN SUBSIDIARIES

	The Company 2005 HK$'000	The Company 2004 HK$'000
Unlisted shares, at cost	**51,398**	51,398
Amounts due from subsidiaries	**1,168,402**	1,006,063
	1,219,800	1,057,461

The balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

As at 31st March, 2005, the underlying value of interests in subsidiaries is, in the opinion of the Board of Directors, not less than the carrying amount in the books of the Company.

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17. INTEREST IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries as at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Aerostar Timewear International Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding
Bensonic International Limited	British Virgin Islands	US$100 Ordinary	–	51	The Americas	Timepiece distribution, trading and marketing
Capricon Company Limited	British Virgin Islands	US$2 Ordinary	–	100	The People's Republic of China	Manufacturing timepiece
金百利實業(深圳)有限公司 (Transliteration: Capricon Industrial (Shenzhen) Co., Limited)	The People's Republic of China	HK$40,600,000	–	100	The People's Republic of China	Property holding
重慶美達實業有限公司 (Transliteration: Chongqing Meida Enterprise Co., Limited)	The People's Republic of China	RMB10,000,000	–	51	The People's Republic of China	Timepiece distribution and retail
Cornell Worldwide International Holdings Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding
Eastern Group (Asia) Limited	Hong Kong	HK$2,000,000 Ordinary	–	100	Hong Kong	Timepiece distribution, trading and marketing
Easy Winner Development Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepiece retail
Ever Precision Corporation	British Virgin Islands	US$1 Ordinary	–	100	The People's Republic of China	Trademark holding
Epoch World Company Limited▲	Taiwan	NTD19,000,000	–	63	Taiwan	Timepiece distribution, trading and marketing
Fiorucci Timewear (Far East) Limited	British Virgin Islands	US$1 Ordinary	–	100	Hong Kong	License holding
廣州金匠時計有限公司 (Transliteration: Guangzhou Goldsmith Timepiece Co., Limited)	The People's Republic of China	RMB500,000	–	100	The People's Republic of China	Timepiece distribution and retail
廣州意瑪迅貿易有限公司 (Transliteration: Guangzhou Imarsion Trading Co., Limited)	The People's Republic of China	RMB500,000	–	100	The People's Republic of China	Timepiece distribution and retail
廣州表匠鐘表維修有限公司 (Transliteration: Guangzhou Watchsmith Timepiece Servicing Co., Limited)	The People's Republic of China	RMB100,000	–	100	The People's Republic of China	Provision of after sales service and timepiece components trading

17. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Inter Mark Worldwide Limited	Hong Kong	HK$100 Ordinary	–	100	Hong Kong	Timepiece distribution and marketing
Mega Chains (China) Limited	Hong Kong	HK$100 Ordinary	–	100	Hong Kong	Timepiece trading and marketing
Milus International S.A.▲	Switzerland	CHF760,000	–	100	Switzerland	Timepiece manufacturing and trading
Montana Timepieces International Limited	Hong Kong	HK$100 Ordinary	–	51	Hong Kong	Timepiece trading and marketing
Omni Watch & Clock Co., LLC.▲	State of New York, United States	US$8,698,090	–	51	United States	Timepiece distribution, trading and marketing
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK$10,000 Ordinary	100	–	British Virgin Islands	Investment holding
Peace Mark Limited	Hong Kong	HK$110,000 Ordinary HK$10,000 Non-voting deferred*	–	100	Hong Kong	Timepiece trading, marketing and manufacturing
PM License Management Limited	British Virgin Islands	US$100 Ordinary	–	100	British Virgin Islands	License holding
Pure Riches Industries Limited	Hong Kong	HK$2,760,000 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
深圳市大元錶業有限公司 (Transliteration: Shenzhen Dayuan Watches Co., Limited)	The People's Republic of China	RMB15,000,000	–	62.5	The People's Republic of China	Timepiece distribution and retail
Sinotop Investment Limited	British Virgin Islands	US$1 Ordinary	–	100	Hong Kong	Investment holding
Sky Type Limited	Hong Kong	HK$10,000 Ordinary	–	100	Hong Kong	Asset holding
上海金時精密機械有限公司 (Transliteration: Shanghai Golden Time Precision Instrument Co., Limited)	The People's Republic of China	RMB30,000,000	–	51	The People's Republic of China	Manufacturing of mechancial movement

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17. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Timetech Industrial Limited	Hong Kong	HK$100 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
World Grade Industries Limited	Hong Kong	HK$10,000 Ordinary	–	100	Hong Kong	Property holding
T&T Timepieces Co., Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepieces distribution, trading and marketing
Solomon Watch & Jewellery Co., Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepieces distribution, trading and marketing
Eastco Business Limited	British Virgin Islands	US$10 Ordinary	–	100	Hong Kong	Trademark holding
Timezone Trademark Management Limited	British Virgin Islands	US$10 Ordinary	–	100	Hong Kong	Trademark holding
Solomon Trademark Management Limited	British Virgin Islands	US$10 Ordinary	–	100	Hong Kong	Trademark holding
深圳市天美時有限公司 (Translation: Shenzhen Times Co., Limited)	The People's Republic of China	RMB10,000,000	–	60	The People's Republic of China	Timepiece distribution and retail
上海世琪貿易有限公司 (Translation: Shanghai Shiqi Trading Co., Limited)	The People's Republic of China	RMB500,000	–	51	The People's Republic of China	Timepiece distribution and retail
上海卓時表業有限公司 (Translation: Shanghai Zhoushi Watches Co., Limited).	The People's Republic of China	RMB500,000	–	51	The People's Republic of China	Timepiece distribution and retail

17. INTEREST IN SUBSIDIARIES *(Continued)*

* *The deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.*

▲ *Companies not audited by Chu and Chu, Certified Public Accountants. The financial statements of the subsidiaries not audited by Chu and Chu, Certified Public Accountants reflect total net assets and total turnover constituting approximately 2.4% and 9.9% respectively of the related consolidated totals.*

The above table listed the subsidiaries of the Company which, in the opinion of the Board of Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board of Directors, result in excessive length.

None of the subsidiaries had any loan capital outstanding at the year end, nor at any time during the year.

18. INTEREST IN AN ASSOCIATE

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**6,244**	5,642
Unamortized goodwill	**23,508**	26,120
	29,752	31,762
Amount due from an associate	**35,623**	33,918
	65,375	65,680

The amount due from an associate is unsecured, interest bearing at HIBOR plus 1.5% with no fixed terms of repayment. In the opinion of the directors, the amount is not expected to be realized within twelve months from the balance sheet date and is therefore included in non-current assets.

Details of the Group's associate as at 31st March, 2005 are as follows:

Name of associate	**Place of incorporation/ registration**	**Issued and fully paid capital/ registered capital**	**Percentage of equity interest held indirectly by the Company %**	**Principal activities**
Niceworld Group Corporation	British Virgin Islands	US$12 Ordinary	50	Timepiece distribution in Latin America*

* *Niceworld holds three subsidiaries which have their respective places of incorporation in Mexico, Panama and Peru. These three subsidiaries have their distribution networks covering the whole of Latin America.*

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19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets of a jointly controlled entity	**9,668**	10,597
Amount due from a jointly controlled entity	**5,972**	325
	15,640	10,922

Details of the Group's jointly controlled entity as at 31st March, 2005 are as follows:

Name of jointly controlled entity	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Percentage of equity interest held indirectly by the Company %	Principal activities
Pearl Link Limited	British Virgin Islands	US$300 Ordinary	49	Investment holding*

* *Pearl Link Limited directly holds 100% equity interest in the capital of Gar Shun Enterprises Development Ltd., an electroplating and ionized plating production company in the PRC.*

20. INVESTMENTS IN SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments, at cost	**16,768**	15,600

In 2004, the Group invested HK$15,600,000 in 20% of the capital of a watch company incorporated in Japan, for long-term purpose. This company advises and assists Japanese brands in identifying and co-ordinating with PRC manufacturers, distribution partners and acquisition targets. It also assists the Group to serve its Japanese customers.

21. OTHER FINANCIAL ASSETS

The amount of HK$29,225,000 represents investments in three investment and insurance combined policies issued by an international insurance group. A minimum annual return of 4% is guaranteed by the insurance group. Insurance costs are being deducted from the investment return for the key man insurances of the directors.

22. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**52,105**	53,109
Work in progress	**64,493**	139,031
Finished goods	**396,702**	117,769
	513,300	309,909

The carrying amount of inventories that are carried at net realizable value, with the original cost of HK$36,341,000 (2004: HK$4,398,000), is HK$nil (2004: HK$nil).

23. TRADE AND OTHER RECEIVABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**276,038**	191,558
Trade and other deposits, prepayments and other receivables	**119,402**	205,915
	395,440	397,473

An aging analysis of trade receivables is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Not yet due	**214,307**	137,764
Overdue within 90 days	**38,444**	23,616
Overdue between 91 to 180 days	**21,021**	30,178
Overdue over 180 days	**2,266**	–
	276,038	191,558

Credit policy:

Payment terms with customers are mainly on credit. Invoices are normally payable within 90 days to 120 days of issuance. Each customer has a pre-set maximum credit limit.

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24. TRADE AND OTHER PAYABLES

An aging analysis of trade payable is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade payables:		
Not yet due	**59,295**	45,885
Overdue within 90 days	**43,030**	1,195
Overdue between 91 days to 180 days	**9,680**	3,251
Overdue over 180 days	**6,903**	–
	118,908	50,331
Accruals and other payables	**101,186**	92,120
	220,094	142,451

25. INTEREST-BEARING BORROWINGS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest-bearing borrowings comprise:		
– Term loans	**421,679**	261,662
– Syndicated loan, unsecured	**342,000**	380,000
– Trust receipt and import loans	**177,031**	161,804
	940,710	803,466
Analyzed as:		
– Secured	**16,800**	23,928
– Unsecured	**923,910**	779,538
	940,710	803,466
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**671,570**	382,016
– More than one year, but not exceeding two years	**217,940**	187,400
– More than two years, but not exceeding five years	**51,200**	234,050
	940,710	803,466
Representing:		
Current portion	**671,570**	382,016
Non-current portion	**269,140**	421,450
	940,710	803,466

Included in interest-bearing borrowings an outstanding amount of HK$43,750,000 as at 31st March, 2005 (2004: HK$nil) was obtained from a bank for the purpose of financing the operation of a share incentive scheme adopted on 13th December, 2004.

25. INTEREST-BEARING BORROWINGS *(Continued)*

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Interest-bearing borrowings comprise:		
– Syndicated loan, unsecured	**342,000**	380,000
– Term loans	**62,650**	70,000
	404,650	450,000
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**182,600**	45,350
– More than one year, but not exceeding two years	**184,050**	182,600
– More than two years, but not exceeding five years	**38,000**	222,050
	404,650	450,000
Representing:		
Current portion	**182,600**	45,350
Non-current portion	**222,050**	404,650
	404,650	450,000

26. OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**3,187**	3,279
More than one year, but not exceeding two years	**1,151**	2,431
More than two years, but not exceeding five years	**611**	808
	4,949	6,518
Less: Finance charges	**(380)**	(76)
	4,569	6,442
Representing:		
Current portion	**2,918**	3,233
Non-current portion	**1,651**	3,209
	4,569	6,442

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27. DEFERRED TAXATION

The followings are the components of deferred tax assets (liabilities) recognized in the consolidated balance sheet and the movements thereon during the year and prior reporting periods:

	Group				
	Accelerated tax depreciation	Tax losses	Unrealized profits on inventories	Revaluation of properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31st March, 2003	(6,802)	–	–	46	(6,756)
Credited (Charged) to consolidated income statement for the year	(2,617)	11,224	1,002	–	9,609
As at 31st March, 2004	(9,419)	11,224	1,002	46	2,853
Credited (Charged) to consolidated income statement for the year	(5,895)	654	(349)	–	(5,590)
As at 31st March, 2005	**(15,314)**	**11,878**	**653**	**46**	**(2,737)**

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable rates prevailing in the countries/places in which the Group operates.

The analysis of the deferred tax balances is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets	**12,577**	12,272
Deferred tax liabilities	**(15,314)**	(9,419)
	(2,737)	2,853

Deferred tax assets are recognized for tax losses carry forwards to the extent that realization of the related tax benefits through the future taxable profit is probable. As at 31st March, 2005, the Group has unrecognized tax losses of approximately HK$25,979,000 (2004: HK$11,111,000) to carry forward indefinitely against future taxable income.

The Company has no significant unprovided deferred taxation for the year or at the balance sheet date.

28. SHARE CAPITAL

	Note	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each			
Authorized:			
As at 31st March, 2003, 31st March, 2004 and 31st March, 2005		**6,000,000,000**	**600,000**
Issued and fully paid:			
As at 31st March, 2003		630,899,833	63,090
Issue of new shares pursuant to the exercise of share options	*(a)*	1,980,000	198
Issue of new shares pursuant to the exercise of warrants	*(b)*	43,276,528	4,328
Issue of new shares as 2003 final scrip dividend, in lieu of cash	*(e)*	8,534,818	853
Issue of new shares as 2004 interim scrip dividend, in lieu of cash	*(f)*	6,062,352	606
As at 31st March, 2004		690,753,531	69,075
Issue of new shares for subscription	*(c)*	126,500,000	12,650
Issue of new shares pursuant to the exercise of warrants	*(b)*	43,295,402	4,330
Issue of new shares as 2004 final scrip dividend, in lieu of cash	*(e)*	8,333,326	833
Shares repurchased and cancelled	*(d)*	(800,000)	(80)
As at 31st March, 2005		**868,082,259**	**86,808**

Notes:

(a) In 2004, 1,980,000 new shares of HK$0.1 each were issued upon the exercise of options under a share option scheme adopted on 24th January, 2002 at exercise prices of HK$0.2 and HK$0.227 for 945,000 shares and 1,035,000 shares respectively. These shares rank pari passu with the existing shares of the Company.

(b) As at 31st March, 2005, 43,295,402 (2004: 43,276,528) shares were issued pursuant to the exercise of warrant holders' right to purchase the shares at HK$0.65. The gross proceeds were approximately HK$28,142,000 (2004: HK$28,130,000). The share capital increase in relation to the exercises of warrants was HK$4,329,540 (2004: HK$4,327,653). These shares rank pari passu with existing shares of the Company.

(c) On 6th April 2004, A-ONE INVESTMENTS LIMITED and United Success Enterprises Limited, substantial shareholders of the Company, subscribed for 126,500,000 new shares in total at HK$1.63 per share.

FOR THE YEAR ENDED 31ST MARCH, 2005

28. SHARE CAPITAL *(Continued)*

(d) During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of shares	Price per share	Aggregate consideration paid
		HK$	*HK$'000*
August 2004	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 premiums on repurchase were charged against share premium.

(e)

Year	Number of shares issued as final dividend	Scrip price	Credited to share capital account	share premium account	Total
		HK$	*HK$'000*	*HK$'000*	*HK$'000*
2005	**8,333,326**	**1,350**	**833**	**9,833**	**10,666**
2004	8,534,818	0.733	853	5,402	6,255

(f)

Year	Number of shares issued as interim dividend	Scrip price	Credited to share capital account	share premium account	Total
		HK$	*HK$'000*	*HK$'000*	*HK$'000*
2005	**–**	**–**	**–**	**–**	**–**
2004	6,062,352	1.309	606	7,329	7,935

29. RESERVES

	Group									
	Share premium	Merger deficit	Capital reserve	Contributed surplus	Leasehold property revaluation reserve	Other reserve	Exchange fluctuation reserve	Retained profits (Accumulated losses)	Proposed final dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April, 2003	76,734	(11,988)	12,372	349,431	5,466	(26)	86	170,894	9,463	612,432
Exercise of share options	226	–	–	–	–	–	–	–	–	226
Exercise of warrants	23,683	–	–	–	–	–	–	–	–	23.683
2003 final cash and scrip dividend	5,402	–	–	–	–	–	–	(28)	(9,463)	(4,089)
2004 interim cash and scrip dividend	7,329	–	–	–	–	–	–	(11,544)	–	(4,215)
Exchange realignment	–	–	–	–	–	–	782	–	–	782
Net profit for the year	–	–	–	–	–	–	–	80,005	–	80,005
Proposed 2004 final cash dividend	–	–	–	–	–	–	–	(16,414)	16,414	–
As at 31st March, 2004	113,374	(11,988)	12,372	349,431	5,466	(26)	868	222,913	16,414	708,824
Issue of new share for subscription	193,409	–	–	–	–	–	–	–	–	193,409
Shares repurchased and cancelled	(930)	–	–	–	–	–	–	–	–	(930)
Exercise of warrants	23,812	–	–	–	–	–	–	–	–	23,812
2004 final cash and scrip dividend	9,833	–	–	–	–	–	–	(110)	(16,414)	(6,691)
2005 interim cash dividend	–	–	–	–	–	–	–	(18,574)	–	(18,574)
Exchange realignment	–	–	–	–	–	–	1,341	–	–	1,341
Net profit for the year	–	–	–	–	–	–	–	123,811	–	123,811
Proposed 2005 final cash dividend	–	–	–	–	–	–	–	(24,532)	24,532	–
As at 31st March, 2005	**339,498**	**(11,988)**	**12,372**	**349,431**	**5,466**	**(26)**	**2,209**	**303,508**	**24,532**	**1,025,002**

FOR THE YEAR ENDED 31ST MARCH, 2005

29. RESERVES *(Continued)*

	The Company				
	Share premium	Contributed surplus	Retained profits (Accumulated losses)	Proposed final dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April, 2003	76,734	388,830	3	9,463	475,030
Exercise of share options	226	–	–	–	226
Exercise of warrants	23,683	–	–	–	23,683
2003 final cash and scrip dividend	5,402	–	(28)	(9,463)	(4,089)
2004 interim cash and scrip dividend	7,329	–	(11,544)	–	(4,215)
Profit for the year	–	–	59,576	–	59,576
Proposed 2004 final dividend	–	–	(16,414)	16,414	–
As at 31st March, 2004	113,374	388,830	31,593	16,414	550,211
Issue of new Shares for subscription	193,409	–	–	–	193,409
Shares repurchase and cancelled	(930)	–	–	–	(930)
Exercise of warrants	23,812	–	–	–	23,812
2004 final cash and scrip dividend	9,833	–	(110)	(16,414)	(6,691)
2005 interim cash and scrip dividend	–	–	(18,574)	–	(18,574)
Profit for the year	–	–	50,436	–	50,436
Proposed 2005 final dividend	–	–	(24,532)	24,532	–
As at 31st March, 2005	**339,498**	**388,830**	**38,813**	**24,532**	**791,673**

The capital reserve represents the total of the share premium of a subsidiary prior to becoming a member of the Group in a merger and the amount arising from the excess of the purchase consideration over the fair value of the Group's share of separate net assets of the subsidiaries acquired.

The merger deficit of the Group represents the excess of the nominal value of the shares in the Company issued as consideration over the nominal value of the subsidiaries' shares transferred to the Company.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

29. RESERVES *(Continued)*

The other reserve represents the amount of unrealized holding loss from the investments in securities.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

	2005	2004
	HK$'000	*HK$'000*
Contributed surplus	**388,830**	388,830
Retained profits	**38,813**	31,593
Proposed final dividend	**24,532**	16,414
	452,175	436,837

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, suppliers or customers, and authorized agents of the Group. The Scheme became effective on 24th January, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board of Directors, and in any event such period of time shall not exceed a period of 3 years commencing on the expiry of 6 months after the date of the acceptance of the offer and expiring on the last day of such period, or 24th January, 2012, whichever is the earlier.

The exercise price of the share options is determinable by the Board of Directors, but shall be the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the offer date, which must be a business day; and (ii) the average of the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

FOR THE YEAR ENDED 31ST MARCH, 2005

30. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme at the end of the year:

	Number of share options						Price of Company's shares***	
Name or category of participant	As at 1st April, 2004 '000	Exercised during the year '000	At at 31st March, 2005 '000	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	At exercise date of options HK$
Other employees								
In aggregate	20	–	20	23/08/2002	23/02/2003 to 23/02/2006	0.200	0.202	–
	20	–	20					

* The vesting periods of the share options are from the dates of the grant until the commencement of the exercise periods.

** The exercise prices of the share options are subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The prices of the Company's shares disclosed as at the dates of the grant of the share options are the Stock Exchange closing prices on the trading days immediately prior to the dates of the grant of the options. The prices of the Company's shares disclosed as at the dates of the exercise of the share options are the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

As at 31st March, 2005, the Company had 20,000 share options outstanding under the Scheme, with exercise period from 23rd February, 2003 to 23rd February, 2006 (both dates inclusive) and exercise price of HK$0.200. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 20,000 additional shares of HK$0.10 each and proceeds of approximately HK$4,000.

31. SHARE INCENTIVE SCHEME

On 13th December, 2004, the Company adopted a share incentive scheme (the "Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly instalments. Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

Eligible persons will not be able to dispose Shares purchased under the Scheme immediately following their purchase. Those selected eligible persons who opt to pay for their Shares in one lump sum will be able to dispose their Shares after one year, while those who opt to pay for their Shares in installments will be able to dispose their Shares over a period of time commencing after one year and ending when they make their final instalment payment.

The Company has obtained a loan in the amount up to HK$50 million from a bank for the purpose of financing the operation of the Scheme. Shares to be purchased pursuant to the Scheme will be purchased on behalf of the eligible persons by the custodian. The custodian will hold the Shares on behalf of the eligible persons until they are permitted under the rules of the Scheme to dispose of their Shares.

The aggregate number of Shares to be offered under the Scheme shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the Scheme shall not exceed HK$50 million.

32. ACQUISITION OF SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
Net assets of the subsidiaries acquired comprise of:		
Furniture, fixtures and office equipment	**28,482**	393
Leasehold improvements	**12,826**	–
Plant and machinery	**356**	–
Investments in securities	**668**	–
Inventories	**31,217**	21,333
Trade and other receivables	**18,437**	10,631
Bank balances and cash	**8,987**	3,628
Trade and other payables	**(25,648)**	(7,569)
Tax payable	**(1,840)**	(2,483)
Lease obligation	**(100)**	–
Bank loan	**(10,394)**	(2,725)
Minority interest	**(15,355)**	(9,226)
	47,636	13,982
Goodwill arising on consolidation	**107,112**	42,536
Total purchase price paid, satisfied in cash	**154,748**	56,518
Less: cash of the subsidiaries acquired	**(8,987)**	(3,628)
Net outflow of cash and cash equivalents in connection with the purchase of the subsidiaries	**145,761**	52,890

33. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangement in respect of assets with a total capital value at the inception of the leases of HK$1,488,000 (2004: HK$nil).

34. RETIREMENT BENEFIT SCHEME

(i) Plan for Hong Kong employees

Defined contribution plan

The Group contributes to a defined contribution retirement scheme which is available to all employees. Employees are required to contribute each month an amount equal to 5% of the basic monthly salary and contributions are made by the employer at 5% of the employee's basic monthly salary. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's contributions to this scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

A mandatory provident fund scheme (the "MPF") was established under the MPF Ordinance in December 2000. Since the Company has obtained exemption for its existing retirement schemes, all staff were offered the choice of switching to the MPF scheme or staying in existing schemes. Where staff elected to join MPF, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$20,000 per month). Staff may elect to contribute more than the minimum as a voluntary contribution. The Group's contributions to this mandatory provident fund scheme are expensed as incurred.

(ii) Plan for PRC employees

The Group also contributes to employees pension schemes established by municipal government in respect of certain companies in Mainland China. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

FOR THE YEAR ENDED 31ST MARCH, 2005

35. CONTINGENT LIABILITIES

As at 31st March, 2005, the Group has contingent liabilities in respect of bills discounted with recourse amounted to approximately HK$10,511,000 (2004: HK$19,445,000).

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries and a related company amounted to approximately HK$1,653,307,000 and HK$nil (2004: HK$1,483,160,000 and HK$2,328,000) respectively. The extent of such facilities utilized by the subsidiaries as at 31st March, 2005 amounted to approximately HK$486,654,000 (2004: HK$357,066,000).

36. FINANCIAL INSTRUMENTS

The Group had entered into interest rate swaps, currency rate swaps and currency rate options to manage its interest rate and currency rate risks. As at 31st March, 2005, the total notional amount of such instruments were up to approximately HK$329,230,000 (2004: HK$403,098,000). The notional amounts of the outstanding interest rate swaps, currency rate swaps and currency rate options indicate the contract size outstanding at the balance sheet date and do not represent the amount at risk.

37. OPERATING LEASE ARRANGEMENTS

As at 31st March, 2005, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings were payable as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
– Within one year	**5,126**	2,646
– After one year but within five years	**8,679**	7,195
– After five years	**–**	933
	13,805	10,774

38. PLEDGE OF ASSETS

As at 31st March, 2005, leasehold properties with carrying amount of approximately HK$15,231,000 (2004: HK$15,594,000) and a fixed deposit of HK$nil (2004: HK$2,328,000) had been pledged to secure banking facilities for a subsidiary. The legal charge against the leasehold properties was subsequently released after the year end date and before the issuance of the financial statements.

39. POST BALANCE SHEET EVENT

On 22th April, 2005, the Group entered into a facility agreement with ABN AMRO Bank N. V. and ING Bank N.V. as co-ordinating arrangers and lenders and 21 other international banks and financial institutions as lenders in relation to a term-loan and revolving credit facility in an aggregate amount of HK$630,000,000. The term-loan has a tenor of 48 months.

SUMMARY OF PROPERTIES

FOR THE YEAR ENDED 31ST MARCH, 2005

	Location	Lease expiry	Gross floor area (square metre)	Type	Category	Stage of completion	Group interest
1.	Unit 3 together with air conditioning plant room on 7th Floor of High Block Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories	2047	933.11	Industrial	Own use/ partial letting	Existing	100%
2.	Unit 3 together with air conditioning plant room on 12th Floor and car parking space No. P5 on 1st Floor of High Block Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories	2047	933.11	Industrial	Own use	Existing	100%
3.	Lands and various buildings and structures located at Heba Industrial Zone in front of Fenghuang Gang area Xixiang Baoan County Shenzhen, PRC	2041	33,312.56	Industrial	Own use	Existing	100%
4.	Units A001, A019 and A125 on Level 1 Wang Jiao Horological Plaza No. 1 Bai Xing Street West Road of Guangzhou City Station Guangzhou City Guangdong Province, PRC	2040	137.4	Retail	Own use	Existing	100%
5.	19 Reuchenettestrasse 2502 Bienne Switzerland	Freehold	526	Industrial	Own use	Existing	100%

FIVE-YEAR **FINANCIAL SUMMARY**

RESULTS

Year ended 31st March,

	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	**2005 HK$'000**
Turnover	852,379	937,010	1,119,099	1,434,492	**1,937,947**
Profit from operations	40,706	48,971	93,629	108,290	**180,978**
Finance costs	(12,661)	(9,264)	(13,407)	(18,155)	**(27,439)**
Share of (loss) profit of an associate	–	–	–	321	**(357)**
Share of loss of a jointly controlled entity	–	–	(6,194)	(2,998)	**(929)**
Profit before taxation	28,045	39,707	74,028	87,458	**152,253**
Income tax	(4,246)	(4,577)	(7,995)	(206)	**(23,158)**
Profit after taxation	23,799	35,130	66,033	87,252	**129,095**
Minority interest	2,000	1,267	(7,834)	(7,247)	**(5,284)**
Profit attributable to shareholders	25,799	36,397	58,199	80,005	**123,811**

ASSETS AND LIABILITIES

As at 31st March,

	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	**2005 HK$'000**
Property, plant and equipment	240,713	292,942	357,070	383,668	**483,167**
Intangible assets	7,992	43,851	60,912	56,532	**53,629**
Goodwill	–	11,714	19,381	60,052	**147,995**
Interest in an associate	–	–	29,738	65,680	**65,375**
Interest in a jointly controlled entity	–	–	9,535	10,922	**15,640**
Investments in securities	22,999	15	11	15,600	**16,768**
Club debentures	1,499	–	–	–	**–**
Other financial assets	–	–	29,225	29,225	**29,225**
Deferred tax assets	–	–	46	12,272	**12,577**
Net current assets	267,729	417,004	396,145	638,204	**658,351**
	540,932	765,526	902,063	1,272,155	**1,482,727**
Long-term liabilities	(57,696)	(214,791)	(176,590)	(424,659)	**(270,791)**
Deferred tax liabilities	(1,743)	(3,396)	(6,802)	(9,419)	**(15,314)**
Minority interest	(20,436)	–	(43,149)	(60,178)	**(84,812)**
Net assets	461,057	547,339	675,522	777,899	**1,111,810**

Peace Mark (Holdings) Limited
宜 進 利 (集 團) 有 限 公 司