Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 304)
(website: http://www.peacemark.com)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH, 2005

The board of directors (the "Directors") is pleased to announce the audited consolidated results of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as "Peace Mark" or the "Group") for the year ended 31 March, 2005.

CONSOLIDATED INCOME STATEMENT

	Note	2005 *HK$'000*	2004 *HK$'000*
Turnover	2	**1,937,947**	1,434,492
Cost of sales		**(1,398,828)**	(1,089,082)
Gross profit		**539,119**	345,410
Other revenue		**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	3	**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	4	**(27,439)**	(18,155)
Profit from ordinary activities before taxation	2	**152,253**	87,458
Income tax	5	**(23,158)**	(206)
Profit after taxation		**129,095**	87,252
Minority interest		**(5,284)**	(7,247)
Profit attributable to shareholders		**123,811**	80,005
Dividends	6	**43,106**	27,958
Earnings per share	7		
Basic (HK cents)		**14.89**	12.43
Diluted (HK cents)		**14.48**	12.09

Notes:

1. 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 1 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 31 March, 2005.

HKFRS 3 "Business Combinations" applies to accounting for business combinations for which the agreement date is on or after 1 January, 2005. The Group did not have any major business combinations for which the agreement date is on or after 1 January, 2005 and accordingly, this HKFRS has had no material impact on these financial statements for the year ended 31 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 in 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.

2. 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. There are no sales between the segments.

	2005		2004	
	Turnover	**Segment results**	Turnover	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
The Americas	**855,550**	**151,554**	788,970	123,358
Asia (excluding China)	**438,525**	**68,320**	354,962	55,811
Europe	**301,678**	**45,849**	229,519	36,089
China	**342,194**	**91,658**	61,041	12,140
	1,937,947	**357,381**	1,434,492	227,398
Other revenue		**22,864**		11,639
Unallocated expenses		**(199,267)**		(130,747)
Finance costs		**(27,439)**		(18,155)
Share of (loss) profit of an associate		**(357)**		321
Share of loss of a jointly controlled entity		**(929)**		(2,998)
Profit before taxation		**152,253**		87,458

3. Profit from operations

	2005	2004
	HK$'000	*HK$'000*
Profit from operations is arrived at after charging (crediting):		
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
Impairment of goodwill	**12,575**	–
Staff costs including contributions of HK$1,400,000 (2004: HK$1,209,000) to defined contribution retirement plans	**110,396**	72,706
Provision for bad debts	**18,853**	2,500
Interest income	**(8,590)**	(4,761)
Loss on write-down of inventories to net realizable value	**31,943**	4,398

4. Finance costs

	2005	2004
	HK$'000	*HK$'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

5. Income tax

Income tax in the consolidated income statement represents:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for current year	**16,229**	9,791
Overseas taxation		
Provision for current year	**1,339**	–
Deferred taxation	**5,590**	(9,585)
	23,158	206

Hong Kong Profits Tax is calculated at the prevailing rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Income tax for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

6. Dividends

	2005	2004
	HK$'000	*HK$'000*
Interim dividend paid of HK2.2 cents per share (2004: HK1.8 cents)	**18,574**	11,544
Final dividend proposed of HK2.8 cents per share (2004: HK2.0 cents)	**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 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.

7. 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

REVIEW OF OPERATIONS AND FUTURE OUTLOOK

Building on the strong foundations laid in the past and adopting a low-risk merger 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 solidifies 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 merger 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 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 this 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 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 also 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 expected 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 attributable to both 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 as well as the implementing 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 improved production efficiency, increased orders from the China business, and moving 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 a consequence of the Group's successful execution of the strategy of downstream expansion into the distribution and retail businesses in the US 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 administration and general expenses were impairment loss of goodwill amounting to HK$12.6 million.

LIQUIDITY AND FINANCIAL RESOURCES

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 impact of RMB appreciation on profitability will be positive for FY2006 should the expansion of China business develop at a pace as planned.

USE OF PROCEEDS FROM THE PLACEMENT AND SUBSCRIPTION

The net proceeds from the Placement and Subscription, 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 upscale component manufacturing facilities 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 various independent PRC marketing and distribution companies in China for a total consideration of HK$56 million during the year which complement the Group's development of the retail network in China. One of these marketing and distribution companies is located in Shanghai and carries 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 facilities and the rest were mainly for the distribution network and general maintenance capital expenditures.

EMPLOYEES AND REMUNERATION POLICY

As at 31 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 13 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 instalments 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 31 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 31 March, 2005, there was no material capital commitment.

DIVIDEND

The Directors have resolved to recommend to Shareholders at the Company's forthcoming annual general meeting the payment of a final dividend of HK2.8 cents per share for the year ended 31 March, 2005 (2004: HK2.0 cents). The final dividend, if approved by the members, will be paid on 12 September 2005 to the Shareholders whose names appear on the register of members of the Company on 26 August, 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 August, 2005 to 26 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 of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 23 August, 2005.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 26 August, 2005.

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

During the year, the Company repurchased its own shares through the Stock Exchange as follows and all these shares have been 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.

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 31 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 31 March, 2005. The audit committee comprises four independent non-executive directors of the Company.

PUBLICATION OF ANNUAL RESULTS ON WEBSITE

The financial information required to be disclosed under paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to all our staff, the management team and board members for their hard work and dedication. Their commitment to the Group, along with the support of shareholders, bankers, customers and suppliers, has been crucial to our long-term success.

As at the date of this announcement, the board of Directors comprises five executive Directors, being Mr. Chau Cham Wong, Patrick, Mr. Leung Yung, Mr. Tsang Kwong Chiu, Kevin, Mr. Man Kwok Keung and Mr. Cheng Kwan Ling, and five independent non-executive Directors, being Ms. Susan So, Mr. Kwok Ping Ki, Albert, Mr. Mak Siu Wing, Clifford, Mr. Tang Yat Kan and Mr. Wong Yee Sui, Andrew.

By Order of the Board
Peace Mark (Holdings) Limited
Chau Cham Wong, Patrick
Chairman

Hong Kong, 13 July, 2005

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