LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2003

INTERIM RESULTS HIGHLIGHTS:

- Net profit after tax amounted to approximately US$7.0 million (equivalent to HK$54.6 million), an increase of approximately 3.3% as compared to that for the same period of last year.
- Shipment volume amounted to approximately US$291.5 million (equivalent to HK$2,273.7 million), approximately 6.7% lower than that for the corresponding period of last year. This mainly reflected the weak global retail market and the late placement of orders due to SARS.
- Turnover recorded at approximately US$21.2 million (equivalent to HK$165.4 million), approximately 8.6% lower as compared to that for the same period of last year.
- Declared an interim dividend of 2.5 HK cents (equivalent to 0.32 US cent) per share.

UNAUDITED RESULTS

The board of directors ("Directors") of Linmark Group Limited ("Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries ("Group") for the six months ended 31 October 2003 with comparative figures for the corresponding period of last year are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Consolidated Income Statements

		For the six months ended 31 October	
		2003	2002
	Notes	***US$'000***	*US$'000*
Turnover	2	**21,211**	23,200
Cost of sales		**(3,029)**	(4,216)
Gross profit		**18,182**	18,984
Other operating income		**1,742**	888
Administrative expenses		**(12,759)**	(12,872)
Profit from operations	3	**7,165**	7,000
Finance costs		**(1)**	(1)
Profit before taxation		**7,164**	6,999
Taxation	4	**(141)**	(200)
Profit for the period		**7,023**	6,799
Dividends	5	**2,091**	1,992
Earnings per share (US cents)	6		
— Basic		**1.1**	1.1
— Diluted		**1.1**	N/A

Consolidated Balance Sheets

	Notes	**At 31 October 2003** *(Unaudited)* *US$'000*	At 30 April 2003 *(Audited)* *US$'000*
NON-CURRENT ASSETS			
Machinery and equipment	7	**1,877**	1,900
Club membership		**83**	119
Deferred expenditure		**3,014**	3,014
		4,974	5,033
CURRENT ASSETS			
Trade receivables	8	**7,740**	5,725
Prepayments, deposits and other receivables		**2,044**	1,762
Amount due from a fellow subsidiary		**—**	11
Securities linked deposits		**—**	6,019
Bank balances and cash		**40,811**	31,920
		50,595	45,437
CURRENT LIABILITIES			
Trade payables	9	**741**	767
Accruals and other payables		**2,489**	1,842
Obligations under a finance lease — due within one year		**17**	22
Tax payable		**1,246**	1,146
		4,493	3,777
NET CURRENT ASSETS		**46,102**	41,660
TOTAL ASSETS LESS CURRENT LIABILITIES		**51,076**	46,693
NON-CURRENT LIABILITIES			
Obligations under a finance lease — due after one year		**—**	6
Post-employment benefits		**1,145**	1,018
Deferred taxation		**17**	18
		1,162	1,042
NET ASSETS		**49,914**	45,651
CAPITAL AND RESERVES			
Share capital		**12,978**	12,948
Reserves		**36,936**	32,703
		49,914	45,651

Notes:

1. Principal Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and the accounting policies adopted which are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 April 2003.

2. Segmental Information

An analysis of the Group's revenue and profit for the period by principal activities and geographical markets is as follows:

By Principal Activities

	For the six months ended 31 October 2003		
	Sales of merchandise	**Services rendered**	**Total**
	US$'000	***US$'000***	***US$'000***
REVENUE			
External revenue	**3,810**	**17,401**	**21,211**
SEGMENT RESULTS	**390**	**5,860**	**6,250**
Unallocated corporate expenses			**(199)**
Interest income			**1,114**
Finance costs			**(1)**
Profit before taxation			**7,164**
Taxation			**(141)**
Profit for the period			**7,023**

	For the six months ended 31 October 2002		
	Sales of merchandise	Services rendered	Total
	US$'000	*US$'000*	*US$'000*
REVENUE			
External revenue	5,012	18,188	23,200
SEGMENT RESULTS	486	5,874	6,360
Interest income			640
Finance costs			(1)
Profit before taxation			6,999
Taxation			(200)
Profit for the period			6,799

By Geographical Markets

The following table provides an analysis of the Group's sales by geographical location of customers:

	For the six months ended 31 October	
	2003	2002
	US$'000	*US$'000*
United States	**7,204**	8,505
Canada	**6,343**	8,289
Europe	**1,902**	1,306
Hong Kong	**2,152**	1,457
Others	**3,610**	3,643
	21,211	23,200

3. Profit from Operations

	For the six months ended 31 October	
	2003	2002
	US$'000	*US$'000*
Profit from operations has been arrived at after charging:		
Depreciation of machinery and equipment	**472**	368

4. Taxation

	For the six months ended 31 October	
	2003	2002
	US$'000	*US$'000*
The charge comprises:		
Hong Kong profits tax		
— current period	**—**	39
Income tax in other jurisdictions		
— current period	**216**	170
— (over)/underprovision in prior years	**(74)**	4
Deferred taxation	**(1)**	(13)
	141	200

5. Dividends

On 6 February 2003, a dividend of 2.4 HK cents per share was paid to shareholders of the Company as the interim dividend for the six months ended 31 October 2002.

On 18 September 2003, a dividend of 3.5 HK cents per share was paid to shareholders of the Company as the final dividend for the year ended 30 April 2003.

The Directors have declared an interim dividend of 2.5 HK cents per share in respect of the six months ended 31 October 2003, which should be payable on or about 16 January 2004 in cash to shareholders whose names appear on the register of members of the Company on 13 January 2004.

6. Earnings per Share

The calculation of the basic earnings per share for the six months ended 31 October 2003 is based on the profit attributable to shareholders of approximately US$7,023,000 (2002: US$6,799,000) and on the weighted average number of approximately 647,603,000 (2002: 639,346,000) shares in issue during the period.

The calculation of the diluted earnings per share for the six months ended 31 October 2003 is based on the profit attributable to shareholders of approximately US$7,023,000 and on the weighted average number of approximately 657,372,000 shares issued and issuable, comprising the weighted average number of approximately 647,603,000 shares in issue during the period and the weighted average number of 9,769,000 as adjusted for the dilutive effect of share options outstanding during the period.

No disclosure of the diluted earnings per share for 2002 was shown as there were no potentially dilutive shares in issue during the period.

7. Machinery and Equipment

During the six months ended 31 October 2003, the Group spent approximately US$461,000 (2002: US$811,000) on acquisition of machinery and equipment.

8. Trade Receivables

The credit terms granted to customers generally range from 60 to 90 days. The aged analysis of trade receivables is as follows:

	At 31 October 2003	At 30 April 2003
	US$'000	*US$'000*
0 – 30 days	**5,423**	3,713
31 – 60 days	**1,391**	1,625
61 – 90 days	**498**	204
Over 90 days	**605**	891
	7,917	6,433
Less: Allowance for doubtful debts	**(177)**	(708)
	7,740	5,725

9. Trade Payables

The aged analysis of trade payables is as follows:

	At 31 October 2003	At 30 April 2003
	US$'000	*US$'000*
0 – 30 days	**370**	462
31 – 60 days	**235**	59
61 – 90 days	**53**	22
Over 90 days	**83**	224
	741	767

10. Related Party Transactions

Identity of related parties	*Notes*	Nature of transactions	For the six months ended 31 October **2003** ***US$'000***	2002 *US$'000*
Subsidiaries of Roly	(i)	Commission income	**—**	3
International Holdings Ltd.	(ii)	Administrative charge	**—**	57
	(iii)	Sales of merchandise	**6**	10
	(iv)	Rental expense	**48**	—
Turmar Limited	(iv)	Rental expense	**65**	65

Subsidiaries of Roly International Holdings Ltd. are fellow subsidiaries of the Company. Turmar Limited is a company owned by Mr. WANG Lu Yen, a director of the Company, and his spouse.

Notes:

(i) Commission income is based on a percentage of the shipment amount.

(ii) Administrative charge represents reimbursement to a fellow subsidiary.

(iii) Sales are based on cost plus a percentage of profit mark-up.

(iv) Rental expenses are determined with reference to the market rate and the floor area.

11. Post Balance Sheet Event

Subsequent to the balance sheet date, the Group acquired the entire issued share capital of ISO International (Holdings) Limited ("ISO") from Mr. Barry Richard PETTITT and Alignment Technology Limited at a consideration of approximately US$19.9 million.

The consideration would be financed by internal resources of the Group comprising approximately US$18.2 million from the listing proceeds and the remaining amount from the general working capital of the Group.

The transaction was completed on 14 November 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's results for the period under review was affected by external factors including the SARS outbreak, which inevitably resulted in the cancellation of buying trips and the postponement of orders. Despite this, the Group's expansion of value-added services helped it to ride through the impact, enabling the Group to deliver better overall net profit margins.

For the six months ended 31 October 2003, the Group's shipment volume reached approximately US$291.5 million (equivalent to HK$2,273.7 million), approximately 6.7% lower than that for the corresponding period of last year. This mainly reflected the weak global retail market and late placement of orders due to SARS. In addition, economic downturn and the Iraqi war cast a shadow over consumer confidence and purchasing power, inevitably creating an impact on the Group's performance. Turnover was reported at approximately US$21.2 million (equivalent to HK$165.4 million), approximately 8.6% lower than that for the corresponding period of last year. Buying agency and service income accounted for approximately 82.0% of the turnover, whilst the remaining approximately 18.0% was generated from the sales of merchandise.

The Group's strategies to improve net profit margins, including expansion of value-added services, have proved effective. Net profit after tax as a percentage of turnover for the period under review improved from approximately 29.3% to approximately 33.1%. Therefore, although gross profit was approximately 4.2% lower at approximately US$18.2 million (equivalent to HK$142.0 million), the Group delivered an approximately 3.3% rise in net profit after tax to approximately US$7.0 million (equivalent to HK$54.6 million) for the period under review. Basic earnings per share was maintained at approximately 1.1 US cents (equivalent to 8.6 HK cents).

- The Group's market diversification strategy resulted in a lower turnover contribution from the North American market. The US, though, remained the Group's largest market, its contribution to turnover eased from approximately 36.7% for the corresponding period of last year to approximately 34.0% for the period under review. In value terms, the US market generated turnover of approximately US$7.2 million (equivalent to HK$56.2 million) for the period under review. Turnover from the Canadian market was reported at approximately US$6.3 million (equivalent to HK$49.1 million), accounting for approximately 29.9% of the total turnover. Nevertheless, turnover from the European and other markets rose by approximately 19.6% during the period under review to reach approximately US$7.7 million (equivalent to HK$60.1 million), accounting for approximately 36.1% of the total turnover. The Group's presence in these markets is expected to be higher in future with the rising contribution from new customers and ISO (as referred to below) who enjoy a significant European market presence.

- The Group's hardgoods business performed steadily during the period under review, generating turnover of approximately US$2.5 million (equivalent to HK$19.5 million), and accounting for approximately 12.0% of the total turnover as compared to approximately 11.0% in the corresponding period of last year. The Group regards the hardgoods business as a driver for long term growth and remains committed to developing this business further. In line with this strategy, the Group has, subsequent to the review period, acquired the entire interest of ISO. ISO is a supply chain management company specialising in home lifestyle consumer electronic goods with a strong European customer base. Led by a strong management team with over 20 years' industry experience, ISO is expected to act as a springboard for the Group's expansion in the hardgoods business.

- The Group's well-defined strategy to promote its value-added services paid off during the period under review. It reported an encouraging growth of approximately 20.0% in turnover to approximately US$6.6 million (equivalent to HK$51.5 million), accounting for approximately 31.3% of the total turnover. There was significant growth in a number of the value-added services. Specifically, our label, trim and packaging division was appointed the nominated supplier for a number of our accounts and our social compliance division was appointed as the exclusive auditor for several customers outside of our sourcing customer base. In addition, we introduced eServices as a business model to sell our L.O.G.O.N. services to all parties in the supply chain. The management believes the value-added services will continue to create major impetus for both top and bottom line growth as more of these services are introduced.

- As part of the Group's ongoing strategy to review its sourcing network, the period under review saw the opening of the new Guangzhou office, which reaffirms the Group's commitment to maintain the most efficient global sourcing network.

Remuneration Policy and Staff Development Scheme

At 31 October 2003, the Group employed about 730 staff. The total staff costs for the period under review amounted to approximately US$8.3 million (equivalent to HK$64.7 million) (2002: US$8.0 million (equivalent to HK$62.4 million)). The Group offers competitive remuneration schemes to its employees based on industry practices, individual and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on both the Group's as well as individual performance. It also offers fringe benefits such as professional tuition and training subsidies to staff to enhance their sense of loyalty and as part of the Group's emphasis on staff training and development.

Financial Review

The Group's financial position is very strong with cash and bank balances of approximately US$40.8 million (equivalent to HK$318.2 million) at 31 October 2003 (Please refer to section "Use of Proceeds of the Initial Public Offering" for details of fund usage.). In addition, the Group has banking facilities of approximately US$2.5 million (equivalent to HK$19.5 million) which have not been utilised. The Group has continued to operate under a debt-free model with no outstanding debt at 31 October 2003 except a hire purchase loan for a motor vehicle.

The Group has a strong current ratio of 11.3 and a low gearing ratio of 0.0003, based on interest bearing borrowing of approximately US$17,000 (equivalent to HK$133,000) and shareholders' equity of approximately US$49.9 million (equivalent to HK$389.2 million) at 31 October 2003. During the period under review, the Group's capital comprised solely shareholders' equity.

The Group's net asset value at 31 October 2003 was approximately US$49.9 million (equivalent to HK$389.2 million). There has not been any material change in the Group's borrowings since 31 October 2003.

The majority of the Group's transactions are denominated in US dollars and Hong Kong dollars. Since Hong Kong dollar is pegged to US dollar, the management believes the exchange risk is not significant at this time.

Prospects

Based on current assessment, the management maintains an overall positive view for the Group's prospects in the second half of the financial year ending 30 April 2004. On the one hand, the acquisition of ISO in November 2003 and new customers in the first six months has laid solid foundations on which the Group will continue to grow. The benefits of having ISO on board are multi-fold: the satisfactory track record of ISO is certain to contribute to the Group's operating results; additionally, ISO will allow the Group to seize opportunities in the rapidly growing consumer electronic goods market and therefore drive the growth of the hardgoods business. It will also broaden Linmark's presence in the European market, creating more growth potential globally.

At the same time, the Directors are also expecting to see the order pattern improve as the retail market slowly recovers and as the Group regains the previously delayed orders due to the SARS outbreak. Orders from newly signed-on customers are also expected to fuel growth.

Value-added services will continue to be an integral part of our diversification strategy and will be an important driver of top and bottom line growth.

Meanwhile, the Group will continue to identify suitable merger and acquisition opportunities to enhance further growth. Riding the increasing trend for outsourcing, the Directors are confident the Group will achieve its business goals for the financial year ending 30 April 2004.

Use of Proceeds of the Initial Public Offering

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 10 May 2002. Through the issue of 148.2 million new shares at HK$1.68 each, the Group raised approximately US$31.9 million (equivalent to HK$248.8 million). After deduction of listing related expenses, net proceeds were approximately US$27.8 million (equivalent to HK$216.8 million).

At 31 October 2003, a total of approximately US$2.1 million (equivalent to HK$16.4 million) of the net proceeds has been used for information technology investment (L.O.G.O.N. system), and setting up of sourcing offices in China.

Subsequent to 31 October 2003, the Company has acquired ISO at a consideration of approximately US$19.9 million (equivalent to HK$155.0 million), out of which approximately US$18.2 million (equivalent to HK$142.0 million) has been financed by the above net proceeds.

The remaining of the net proceeds of approximately US$7.5 million (equivalent to HK$58.5 million) will be used as planned to further expand the sourcing network, enhancement of L.O.G.O.N. system, marketing and business development and mergers and acquisitions. While the Group continues to look for synergistic merger and acquisition targets, a substantial part of the cash on hand is placed into fixed bank deposits.

INTERIM DIVIDEND

The Directors have declared the payment of an interim dividend of 2.5 HK cents (equivalent to 0.32 US cent) per share in respect of the six months ended 31 October 2003 and such interim dividend will be payable on or about 16 January 2004 in cash to shareholders whose names appear on the register of members of the Company on 13 January 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 January 2004 to 13 January 2004, both days inclusive. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4.00 p.m. on 8 January 2004.

AUDIT COMMITTEE

The audit committee comprising Mr. WANG Arthur Minshiang, Mr. WONG Wai Ming and Dr. WOON Yi Teng, Eden, being the three independent non-executive directors of the Company, was set up on 22 April 2002 with written terms of reference. The audit committee has reviewed with the management and the Company's external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the Interim Report for unaudited financial statements of the Group for the six months ended 31 October 2003 issued by the external auditors.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 31 October 2003.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange during the period under review.

PUBLICATION OF THE INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 18 December 2003

Principal Place of Business in Hong Kong:
10th Floor, South Seas Centre, Tower II
75 Mody Road, Tsimshatsui
Kowloon, Hong Kong

* *For identification purpose only*

Please also refer to the published version of this announcement in the ***(The Standard)***