LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 915

ANNOUNCEMENT OF UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 JULY 2004

FIRST QUARTERLY RESULTS HIGHLIGHTS:

- Profit after taxation amounted to approximately US$1.9 million (equivalent to HK$14.8 million), an increase of approximately 4.7% as compared to the corresponding period of last year.

- Turnover recorded at approximately US$11.2 million (equivalent to HK$87.4 million).

UNAUDITED RESULTS

The board of directors ("Board" or "Directors") of Linmark Group Limited ("Company" or "Linmark") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries ("Group") for the three months ended 31 July 2004 with comparative figures for the previous corresponding period are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Consolidated Income Statement

		For the three months ended 31 July	
		2004	2003
	Notes	***US$'000***	*US$'000*
Turnover	*2*	**11,168**	9,481
Cost of sales		**(2,148)**	(1,468)
Gross profit		**9,020**	8,013
Other operating income		**566**	413
Administrative expenses		**(7,585)**	(6,521)
Profit from operations	*3*	**2,001**	1,905
Finance costs		**(1)**	(1)
Gain on dissolution of a subsidiary		**14**	—
Profit before taxation		**2,014**	1,904
Taxation	*4*	**(73)**	(50)
Profit for the period		**1,941**	1,854
Earnings per share (US cent)	*5*		
— Basic		**0.3**	0.3
— Diluted		**0.3**	0.3

Consolidated Balance Sheet

	Notes	At 31 July 2004 (Unaudited) US$'000	At 30 April 2004 (Audited) US$'000
NON-CURRENT ASSETS			
Machinery and equipment	*6*	**2,077**	2,176
Club membership		**83**	83
Goodwill		**15,974**	16,181
Deferred expenditure		**3,014**	3,014
		21,148	21,454
CURRENT ASSETS			
Trade receivables	*7*	**12,138**	10,535
Prepayments, deposits and other receivables		**2,960**	2,202
Short term investment		**141**	109
Securities linked deposits		**1,280**	—
Bank balances and cash		**33,449**	34,869
		49,968	47,715
CURRENT LIABILITIES			
Trade payables	*8*	**1,618**	923
Accruals and other payables		**3,708**	2,478
Tax payable		**1,890**	1,861
Obligations under a finance lease — due within one year		**—**	6
Balance of consideration payable for acquisition — due within one year		**1,987**	1,987
		9,203	7,255
NET CURRENT ASSETS		**40,765**	40,460
TOTAL ASSETS LESS CURRENT LIABILITIES		**61,913**	61,914
NON-CURRENT LIABILITIES			
Balance of consideration payable for acquisition — due after one year		**1,987**	3,974
Post-employment benefits		**1,269**	1,272
Deferred taxation		**20**	21
		3,276	5,267
NET ASSETS		**58,637**	56,647
CAPITAL AND RESERVES			
Share capital		**13,092**	13,090
Reserves		**45,545**	43,557
		58,637	56,647

Notes:

1. Principal Accounting Policies

The consolidated accounts have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and short term investment. The accounting policies adopted are consistent with those adopted in the preparation of the Group's annual accounts for the year ended 30 April 2004.

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

	Unaudited For the three months ended 31 July 2004		
	Sales of merchandise *US$'000*	**Services rendered** *US$'000*	**Total** *US$'000*
REVENUE			
External revenue	**2,895**	**8,273**	**11,168**
SEGMENT RESULTS	**459**	**1,205**	**1,664**
Unallocated corporate expenses			**(113)**
Interest income			**450**
Finance costs			**(1)**
Gain on dissolution of a subsidiary			**14**
Profit before taxation			**2,014**
Taxation			**(73)**
Profit for the period			**1,941**

	Unaudited For the three months ended 31 July 2003		
	Sales of merchandise *US$'000*	Services rendered *US$'000*	Total *US$'000*
REVENUE			
External revenue	1,870	7,611	9,481
SEGMENT RESULTS	169	1,546	1,715
Unallocated corporate expenses			(58)
Interest income			248
Finance costs			(1)
Profit before taxation			1,904
Taxation			(50)
Profit for the period			1,854

By Geographical Markets

The following table provides an analysis of the Group's revenue by geographical location of customers.

	Unaudited For the three months ended 31 July	
	2004	2003
	US$'000	*US$'000*
United States	**4,371**	3,670
Canada	**2,593**	2,767
Hong Kong	**1,354**	750
Europe	**977**	812
Others	**1,873**	1,482
	11,168	9,481

3. Profit from Operations

	Unaudited For the three months ended 31 July	
	2004	2003
	US$'000	*US$'000*
Profit from operations has been arrived at after (crediting)/charging:		
Interest income	**(450)**	(248)
Reimbursement income from customers	**(66)**	(45)
Amortisation on goodwill	**207**	—
Depreciation of machinery and equipment	**264**	232

4. Taxation

	Unaudited For the three months ended 31 July	
	2004	2003
	US$'000	*US$'000*
Taxation charge comprises:		
Hong Kong profits tax		
— current period	**27**	—
Income tax in other jurisdictions		
— current period	**34**	61
— under/(over) provision in prior years	**12**	(6)
Deferred taxation	**—**	(5)
	73	50

5. Earnings Per Share

The calculation of the basic earnings per share for the three months ended 31 July 2004 is based on the profit attributable to shareholders of approximately US$1,941,000 (2003: US$1,854,000) and on the weighted average number of approximately 654,107,000 (2003: 647,400,000) shares in issue during the period.

The calculation of the diluted earnings per share for the three months ended 31 July 2004 is based on the profit attributable to shareholders of approximately US$1,941,000 (2003: US$1,854,000) and on the weighted average number of approximately 664,606,000 (2003: 654,403,000) shares issued and issuable, comprising the weighted average number of approximately 654,107,000 (2003: 647,400,000) shares in issue during the period and the weighted average number of approximately 10,499,000 (2003: 7,003,000) shares as adjusted for the dilutive effect of share options outstanding during the period.

6. Movements in Machinery and Equipment

During the three months ended 31 July 2004, the Group spent approximately US$266,000 (2003: US$294,000) on acquisition of machinery and equipment.

7. Trade Receivables

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

	At 31 July 2004 *(Unaudited)* ***US$'000***	At 30 April 2004 *(Audited)* *US$'000*
0 - 30 days	**6,135**	7,813
31 - 60 days	**2,251**	1,429
61 - 90 days	**1,042**	337
Over 90 days	**2,973**	1,245
	12,401	10,824
Less: Allowance for doubtful debts	**(263)**	(289)
	12,138	10,535

8. Trade Payables

The aged analysis of trade payables is as follows:

	At 31 July 2004 *(Unaudited)* ***US$'000***	At 30 April 2004 *(Audited)* *US$'000*
0 - 30 days	**928**	425
31 - 60 days	**388**	214
61 - 90 days	**118**	154
Over 90 days	**184**	130
	1,618	923

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 31 July 2004, Linmark continued to deliver solid business progress despite many challenges around the globe. Consumer spending in the Group's major markets in North America was modest as a result of high oil prices and rising interest rates. The European market was steady as the strong Euro provided considerable support to the economies there.

The Group reported a shipment volume of approximately US$167.4 million (equivalent to HK$1,305.7 million). Turnover rose 17.8% reaching approximately US$11.2 million (equivalent to HK$87.4 million). The increase in turnover was mainly attributable to the expansion of value-added services and the addition of new business. Profit after tax increased by 4.7% to approximately US$1.9 million (equivalent to HK$14.8 million). Basic earnings per share were approximately 0.3 US cent (equivalent to 2.3 HK cents). The Directors do not recommend the payment of dividend for the period under review.

To sharpen its competitive edge in readiness for the 2005 abolishment of apparel quotas globally, Linmark invested in setting up sourcing offices in Guangzhou and Qingdao during the period under review to strengthen its sourcing network in China. At the same time, it also invested to expand its marketing presence in various parts of Europe and North America including Manchester, Los Angeles, New York and Toronto. The Group believes that these strategic investments are essential in maximising the Group's long-term growth, though an increase in expenses in the short term.

Another significant milestone during the period under review was the signing of a letter of intent for a strategic partnership with China Textile Information Centre (CTIC) and China Textiles Development Centre (CTDC), which are the subordinate organisations of the China National Textile Industry Council (formerly the Textile Ministry), in May 2004. CTIC and CTDC are commissioned by the Chinese government to enhance product development and the establishment of information service systems in the China textile industry. The Group will set up a joint venture company with CTIC and CTDC to promote textile testing services, social compliance auditing and accreditation consultancy services. It will also promote supply chain management system, e-commerce services in China and international trade of Chinese textiles in the overseas markets. The Group regards this move as an important catalyst capitalizing on the rapidly growing Chinese textile industry.

Financial Review

The Group's financial position is strong with cash and cash equivalents of approximately US$34.7 million (equivalent to HK$270.7 million) as at 31 July 2004. In addition, the Group has total banking facilities of approximately US$5.5 million (equivalent to HK$42.9 million). The Group continued to operate under a debt-free model with no outstanding net debt as at 31 July 2004.

The Group has a strong current ratio of 5.4 as at 31 July 2004. During the period under review, the Group's capital comprised solely shareholders' equity. There has not been any material change in the Group's borrowings since 31 July 2004.

The Group's unaudited net asset value as at 31 July 2004 was approximately US$58.6 million (equivalent to HK$457.1 million).

As at 31 July 2004, the Group had no material contingent liability and there has been no material change since then.

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

Prospects

For the remaining quarters of the current financial year, the Group sees uncertainties resulting from persistently high oil prices and rising interest rates. The outcome of the presidential election in the US may also affect the economic outlook. These factors will impact the development of consumer markets for the rest of the current financial year.

Despite these issues, the trend toward increasing outsourcing is expected to continue. In this regard, the Group believes the abolishment of apparel quotas globally starting from January 2005 will be another major boost to its business. The industry generally is in agreement that China will gain higher importance as the world's sourcing hub. Gearing up for these opportunities, Linmark has embarked on a series of business plans which significantly enhance its sourcing strengths in China. The Group looks forward to benefiting from this important development in the sourcing industry.

The Group's order book is healthy for all business categories. Market and product diversification will continue to be a corporate goal. In addition, the Group is also committed to seeking synergistic merger and acquisition opportunities to accelerate growth.

Based on the current assessment, management maintains an overall positive view on the Group's performance for the rest of the financial year.

DIVIDEND

The Directors do not recommend the payment of dividend for the three months ended 31 July 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, the Company repurchased 538,000 shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). These shares were cancelled or deemed to have been cancelled on the date of repurchase.

Details of such repurchase are as follows:

Month of repurchase	Number of shares repurchased	Price paid per share Highest	Price paid per share Lowest	Aggregate price paid
		HK$	*HK$*	*HK$'000*
May 2004	538,000	2.95	2.50	1,465

Save as disclosed above, at no time during the period under review was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises five executive directors, being Mr. WANG Lu Yen (Chairman), Mr. Steven Julien FENIGER (Chief Executive Officer), Mr. FU Jin Ming, Patrick, Mr. KHOO Kim Cheng and Mr. KWOK Chi Kueng, and three independent non-executive directors, being Mr. WANG Arthur Minshiang, Mr. WONG Wai Ming and Dr. WOON Yi Teng, Eden.

REVIEW OF RESULTS

The audit committee has reviewed and discussed with management the unaudited results of the Group for the three months ended 31 July 2004. The unaudited results have not been reviewed by the external auditors of the Company in accordance with any auditing standard.

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 RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required under paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 13 September 2004

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* *For identification purpose only*

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