LINMARK GROUP LIMITED | INTERIM REPORT 2003

LINMARK

LINMARK GROUP LIMITED
林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS HIGHLIGHTS

- Shipment volume for the first half of this financial year amounted to approximately US$312.3 million (equivalent to HK$2.4 billion), increasing by about 20.1% compared to the corresponding period of last year
- Turnover for the first half of this financial year amounted to approximately US$23.2 million (equivalent to HK$181.0 million), increasing by about 45.2% compared to the corresponding period of last year
- Net profit after tax for the six months ended 31 October 2002 amounted to approximately US$6.8 million (equivalent to HK$53.0 million), increasing by about 18.9% compared to the corresponding period of last year
- Basic earnings per share amounted to 1.1 US cents (equivalent to 8.6 HK cents)
- Interim dividend of 2.4 HK cents (equivalent to 0.3 US cent) per share

FINANCIAL CALENDAR

Interim period ended	31 October 2002
Interim results announced	8 January 2003
Ex-dividend date for interim dividend	23 January 2003
Register of members closed	27-29 January 2003
Record date for interim dividend	29 January 2003
Payment of interim dividend	(on or about) 6 February 2003
Financial year ending	30 April 2003
Full year results to be announced	late July 2003 **

** *Subject to change*

* *For identification purpose only*

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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 2002 with comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the six months ended 31 October 2002

		For the six months ended 31 October	
		2002	2001
		(Unaudited)	(Audited)
	Notes	**US$'000**	US$'000
Turnover	3	**23,200**	15,973
Cost of sales		**(4,216)**	(353)
Gross profit		**18,984**	15,620
Other operating income		**888**	500
Administrative expenses		**(12,872)**	(10,265)
Profit from operations	4	**7,000**	5,855
Finance costs		**(1)**	–
Gain on dissolution of a subsidiary		**–**	37
Profit before taxation		**6,999**	5,892
Taxation	5	**(200)**	(175)
Profit for the period		**6,799**	5,717
Dividends	6	**1,992**	3,800
Earnings per share - Basic	7	**1.1 US cents**	1.1 US cents

CONDENSED CONSOLIDATED BALANCE SHEETS

As at 31 October 2002

	Notes	**As at 31 October 2002 (Unaudited) US$'000**	As at 30 April 2002 (Audited) US$'000
NON-CURRENT ASSETS			
Machinery and equipment	8	**1,769**	1,358
Other asset		**119**	119
Deferred expenditure		**3,014**	3,014
		4,902	4,491
CURRENT ASSETS			
Trade receivables	9	**9,237**	4,758
Prepayments, deposits and other receivables		**1,813**	2,187
Bank balances and cash		**32,266**	2,122
		43,316	9,067
CURRENT LIABILITIES			
Trade payables	10	**1,966**	100
Accruals and other payables		**1,926**	1,484
Amount due to a fellow subsidiary		**13**	–
Obligations under a finance lease – due within one year		**22**	22
Taxation payable		**1,061**	873
		4,988	2,479
NET CURRENT ASSETS		**38,328**	6,588
TOTAL ASSETS LESS CURRENT LIABILITIES		**43,230**	11,079
NON-CURRENT LIABILITIES			
Obligations under a finance lease – due after one year		**17**	28
Provision for employee retirement benefits		**1,085**	1,035
Deferred taxation		**17**	30
		1,119	1,093
		42,111	9,986
CAPITAL AND RESERVES			
Share capital	11	**12,948**	40
Reserves	12	**29,163**	9,946
		42,111	9,986

CONDENSED CONSOLIDATED STATEMENTS OF RECOGNISED GAINS AND LOSSES

For the six months ended 31 October 2002

	For the six months ended 31 October	
	2002	2001
	(Unaudited)	(Audited)
	US$'000	US$'000
Exchange difference arising from translation of financial statements of overseas operations not recognised in income statements	**(25)**	10
Profit for the period	**6,799**	5,717
Total recognised gains	**6,774**	5,727

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the six months ended 31 October 2002

	For the six months ended 31 October	
	2002	2001
	(Unaudited)	(Audited)
	US$'000	US$'000
NET CASH FROM OPERATING ACTIVITIES	**4,971**	3,705
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(134)**	1,484
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**25,340**	(3,783)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**30,177**	1,406
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE PERIOD	**2,122**	1,319
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(33)**	18
CASH AND CASH EQUIVALENTS AS AT END OF THE PERIOD Represented by bank balances and cash	**32,266**	2,743

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 October 2002

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 25 January 2002.

It became the holding company of the Group on 22 April 2002 as a result of a corporate reorganisation ("Group Reorganisation") for the purpose of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The shares of the Company were listed on the Stock Exchange on 10 May 2002.

The Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the condensed financial statements have been prepared as if the Company had always been the holding company of the Group from the beginning of the earliest period presented in a manner similar to the pooling of interests method.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and with International Accounting Standard 34 "Interim financial reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention 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 2002.

3. 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 2002			
	Sales of merchandise US$'000	Service rendered US$'000	Elimination US$'000	Total US$'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 Principal Activities *(continued)*

	For the six months ended 31 October 2001			
	Sales of merchandise US$'000	Service rendered US$'000	Elimination US$'000	Total US$'000
REVENUE				
External revenue	381	15,592	–	15,973
SEGMENT RESULTS	28	5,792	–	5,820
Interest income				35
Gain on dissolution of a subsidiary				37
Profit before taxation				5,892
Taxation				(175)
Profit for the period				5,717

By Geographical Markets

	For the six months ended 31 October 2002				
	Canada US$'000	**United States US$'000**	**Europe US$'000**	**Others US$'000**	**Total US$'000**
REVENUE					
External revenue	**8,289**	**8,505**	**1,306**	**5,100**	**23,200**
SEGMENT RESULTS	**1,926**	**2,590**	**417**	**1,427**	**6,360**
Interest income					**640**
Finance costs					**(1)**
Profit before taxation					**6,999**
Taxation					**(200)**
Profit for the period					**6,799**

	For the six months ended 31 October 2001				
	Canada US$'000	United States US$'000	Europe US$'000	Others US$'000	Total US$'000
REVENUE					
External revenue	7,003	3,821	1,109	4,040	15,973
SEGMENT RESULTS	2,551	1,392	404	1,473	5,820
Interest income					35
Gain on dissolution of a subsidiary					37
Profit before taxation					5,892
Taxation					(175)
Profit for the period					5,717

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the six months ended 31 October	
	2002	2001
	US$'000	US$'000
Depreciation of machinery and equipment	**368**	215

5. TAXATION

	For the six months ended 31 October	
	2002	2001
	US$'000	US$'000
The charge comprises:		
Hong Kong profits tax		
– current period	**39**	–
Income tax in other jurisdictions		
– current period	**170**	175
– underprovision in prior period	**4**	–
Deferred taxation	**(13)**	–
	200	175

Hong Kong profits tax is calculated at 16% of the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

There was no material unprovided deferred taxation during the period.

6. DIVIDENDS

During the six months ended 31 October 2001, an interim dividend of US$3,800,000 was paid by a subsidiary to its then shareholder prior to the Group Reorganisation.

On 27 September 2002, a dividend of 3.0 HK cents per share was paid to shareholders of the Company as the final dividend for the year ended 30 April 2002.

The Directors have determined that an interim dividend of 2.4 HK cents per share in respect of the financial year ending 30 April 2003 should be paid to the shareholders of the Company whose names appear on the register of members of the Company on 29 January 2003.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 31 October 2002 was based on the profit for the period of approximately US$6,799,000 and on the weighted average number of 639,345,652 shares in issue during the period.

The calculation of the basic earnings per share for the six months ended 31 October 2001 was based on the profit for the period of approximately US$5,717,000 and on the 499,200,000 shares in issue and issuable comprising 2,000,000 shares in issue as at 30 April 2002 and 497,200,000 shares to be issued pursuant to the capitalisation issue as more fully described in the prospectus of the Company dated 30 April 2002.

No diluted earnings per share has been presented because the exercise prices of the Company's options were higher than the average market price for shares for the six months ended 31 October 2002.

8. MOVEMENTS IN MACHINERY AND EQUIPMENT

During the period, the Group spent approximately US$811,000 on acquisition of machinery and equipment.

9. TRADE RECEIVABLES

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

	As at 31 October 2002 US$'000	As at 30 April 2002 US$'000
Aged:		
0 - 30 days	**4,973**	2,873
31 - 60 days	**3,042**	1,356
61 - 90 days	**380**	319
Over 90 days	**1,451**	1,025
	9,846	5,573
Less: Allowances for doubtful debts	**(609)**	(815)
	9,237	4,758

10. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	As at 31 October 2002 US$'000	As at 30 April 2002 US$'000
Aged:		
0 - 30 days	**1,097**	–
31 - 60 days	**123**	–
61 - 90 days	**284**	–
Over 90 days	**462**	100
	1,966	100

11. SHARE CAPITAL

	Number of shares	**Amount** US$'000
Authorised:		
As at 1 May 2002 and 31 October 2002	2,000,000,000	40,000
Issued and fully paid:		
As at 1 May 2002	2,000,000	40
Allotted and issued	148,200,000	2,964
Issue of shares by capitalisation of the share premium account	497,200,000	9,944
As at 31 October 2002	647,400,000	12,948

On 8 May 2002, the Company issued 124,800,000 shares of US$0.02 each at HK$1.68 per share to the public and, through a placement, to certain investors.

Immediately after the above-mentioned public offer and placement, an amount of US$9,944,000 standing to the credit of the share premium account of the Company was capitalised for the issuance of 497,200,000 shares of US$0.02 each of the Company to RGS Holdings Limited, being the sole shareholder of the Company as at 22 April 2002.

On 27 May 2002, 23,400,000 shares of US$0.02 each of the Company were issued at HK$1.68 per share to certain investors pursuant to the exercise of the over-allotment option granted to the underwriters in relation to the abovementioned placement in full by DBS Asia Capital Limited on behalf of the underwriters.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects save for the participation in the capitalisation issue referred to above.

12. RESERVES

	Share premium US$'000	Special reserve US$'000	Translation reserve US$'000	Dividend reserve US$'000	Accumulated profits US$'000	Total US$'000
As at 1 May 2001	2	222	127	–	12,447	12,798
Exchange differences arising from translation of financial statements of overseas operations	–	–	10	–	–	10
Exchange reserve realised upon dissolution of a subsidiary	–	–	(22)	–	–	(22)
Profit for the period	–	–	–	–	5,717	5,717
Interim dividend declared	–	–	–	3,800	(3,800)	–
Dividend paid	–	–	–	(3,800)	–	(3,800)
As at 31 October 2001	2	222	115	–	14,364	14,703
Special reserve arising on the group restructuring	–	(40)	–	–	–	(40)
Exchange difference arising from translation of financial statements of overseas operations	–	–	(342)	–	–	(342)
Profit for the period	–	–	–	–	2,625	2,625
Special dividends declared	–	–	–	7,000	(7,000)	–
Dividends paid	–	–	–	(7,000)	–	(7,000)
Proposed final dividend	–	–	–	2,490	(2,490)	–
As at 30 April 2002	2	182	(227)	2,490	7,499	9,946
Premium arising on issue of shares	28,956	–	–	–	–	28,956
Capitalisation issue of shares	(9,944)	–	–	–	–	(9,944)
Expenses incurred in connection with the issue of the shares	(4,079)	–	–	–	–	(4,079)
Exchange difference arising from translation of financial statements of overseas operations	–	–	(25)	–	–	(25)
Profit for the period	–	–	–	–	6,799	6,799
Dividend paid	–	–	–	(2,490)	–	(2,490)
Interim dividend declared	–	–	–	1,992	(1,992)	–
As at 31 October 2002	14,935	182	(252)	1,992	12,306	29,163

The special reserve represents the difference between the nominal value of share capital of the Company issued and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares.

13. RELATED PARTY TRANSACTIONS

Name of related parties	*Notes*	Nature of transactions	For the six months ended 31 October 2002 US$'000	2001 US$'000
Subsidiaries of Roly International Holdings Ltd.	(i)	Commission income	**3**	6
	(ii)	Administrative charge	**57**	289
	(iii)	Sales	**10**	–
Turmar Limited	(iv)	Rental expense	**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 reimbursements to a fellow subsidiary.

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

(iv) Rental expense is determined based on market rate and floor area.

14. OPERATING LEASE COMMITMENTS

As at the balance sheet dates, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	As at 31 October 2002 US$'000	As at 30 April 2002 US$'000
Within one year	**1,376**	1,235
In the second to fifth year inclusive	**999**	915
	2,375	2,150

As at the balance sheet dates, the Group had outstanding commitments under non-cancellable operating leases in respect of furniture, fixtures and equipment which fall due as follows:

	As at 31 October 2002 US$'000	As at 30 April 2002 US$'000
Within one year	**73**	44
In the second to fifth year inclusive	**103**	65
	176	109

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters and furniture, fixtures and equipment. Leases in respect of land and buildings are negotiated for an average term of two years and rentals are fixed for an average of two years. Leases in respect of furniture, fixtures and equipment are negotiated for a term of five years and rentals are fixed for a term of five years.

15. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the balance sheet dates.

	As at 31 October 2002 US$'000	As at 30 April 2002 US$'000
Commitments for the acquisition of machinery and equipment		
– contracted for but not provided in the financial statements	**44**	104
– authorised but not contracted for	**13**	13
	57	117

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF LINMARK GROUP LIMITED

Introduction

We have been instructed by the Company to review the interim financial report on pages 2 to 11.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 "Interim financial reporting" and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard No. 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 October 2002.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

8 January 2003

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Despite the continuing global economic slowdown during the first half of the financial year ending 30 April 2003, the Group was able to achieve encouraging results and steady business growth. For the six months ended 31 October 2002, the Group achieved shipment volume of approximately US$312.3 million, representing an increase of approximately 20.1% as compared to the corresponding period of last year. While the turnover, comprising commission income and sales of merchandise sourced by the Group, was recorded at approximately US$23.2 million, representing an increase of approximately 45.2% as compared to the corresponding period of last year, the sales of merchandise which command a lower margin than the buying services have reduced the gross profit margin to 81.8% as compared to 97.8% recorded in the same period of last year. Nevertheless, this new move into sales of merchandise to customers, which incorporates Linmark's own designs, is more profitable than the Group's traditional buying agency business. Accordingly, despite the decrease in the overall gross profit margin, this new business is supporting the continual strength of the net profit as a percentage of gross profit (at approximately 36%). Net profit attributable to shareholders for the period under review was approximately US$6.8 million, approximately 18.9% higher than the corresponding period of last year. As a stamp of recognition of its market standing, the Group has also been included as a constituent stock in the Hang Seng HK Composite Index – SmallCap from 2 September 2002, classified under the services category.

Canadian Market

During the period under review, the Group maintained its market diversification strategy. As a result of management's effort, new customers from the US and elsewhere have reduced the Group's reliance on the Canadian market from 43.8% of turnover in the corresponding period of last year to the current level of 35.7%. While Canada remained one of the Group's largest markets in the first half of the financial year ending 30 April 2003, the US market, accounting for 36.7% of turnover, surpassed Canada to become the Group's single largest market during the period.

Affected by the economic downturn, consumer confidence and purchasing power in Canada remained weak. To enhance the Group's business in Canada, the Group initiated more proactive marketing and sales strategies and began offering additional value-added services to provide customers with one-stop supply chain management solutions. As a result, despite the challenges, the Group's turnover in Canada rose to approximately US$8.3 million during the period under review, representing an increase of approximately 18.4% over the last corresponding period. In addition to traditional sourcing services, the Group will continue to offer value-added services, such as private label development and packaging and trim services, to its Canadian customers. The progress has been encouraging and more private label development projects have been secured and will be executed in the rest of the financial year.

US Market

Although the 911 incident has impeded the recovery of the US economy, the Group's turnover in the US market saw remarkable growth, driven mainly by new customers and better than expected performance of certain pre-existing customers. During the period under review, the US market accounted for 36.7% of the Group's turnover making it the Group's fastest growing and largest market. Turnover attributable to the US market amounted to approximately US$8.5 million, representing an increase of approximately 122.6% over the last corresponding period. The Group will continue its efforts to generate new business through broader services and deeper market coverage.

European Market

During the period under review, the Group recorded turnover in the European market of approximately US$1.3 million, a rise of approximately 17.8% over that of the last corresponding period. To promote growth in this important market, the management will strategically accelerate the Group's penetration in the European market in the coming years. The management is confident that its committed efforts to expand the sales network and customer base in Europe will soon bear fruit, and business in this market will accelerate further.

Other Markets

During the period under review, the Group's turnover in other markets grew 26.2% over the last corresponding period to approximately US$5.1 million. The management will actively expand business in these markets in line with its market diversification strategy.

Hardgoods Development

During the period under review, the Group's turnover in hardgoods contributed approximately 11.0% of total turnover compared to 21.4% in the corresponding period of last year. The introduction of new customers in the beginning of the financial year fuelled the Group's softgoods business, which delivered stronger than expected growth during the period. As such, the relative importance of the hardgoods business, as measured by its turnover contribution declined. In August 2002, the Group successfully secured a new hardgoods customer in the pet accessories area, underscoring its efforts and determination to grow this business. In addition to expanding its customer base, the Group is also currently working with a number of existing softgoods customers who are diversifying into the hardgoods business. By strengthening the relationships with its customers and developing innovative offerings based on sophisticated knowledge of the market and consumer needs, the Group anticipates that this business will enhance the Group's hardgoods turnover in the coming years. To strengthen execution and offering, the Group has increased its product development capabilities and investment in human capital.

L.O.G.O.N.

The Group's web-based information technology system L.O.G.O.N. (Linmark Online Global Operating Network) is now linked to all major customers. During the period under review, the Group successfully implemented the L.O.G.O.N. system in all its offices and expanded its functions to include RFQ (request for quotation) and developed the first phase of its E-Office Human Resources Intranet system, allowing the Group to further streamline and enhance its operating efficiencies. The Group will continue to invest in the enhancement of its L.O.G.O.N. system to reinforce the connectivity and integration with customers and suppliers as part of its global supply chain management solutions.

Value-added Services

During the period under review, the Group successfully launched and implemented various value-added businesses, including product development and design services, packaging and trim services, quality assurance and social compliance auditing services. The initial target is to migrate certain existing customers to these higher margin businesses. Although the contribution from these value-added services during the period was not significant, it is anticipated that the contribution will grow steadily in the coming years.

China Expansion

With China's growing importance as the Group's strategic sourcing hub post-WTO accession, the Group has continued to expand its sourcing network in China following the opening of its Shenzhen sourcing office in May 2002. For the remainder of this financial year, the Group will maintain its aggressive expansion into other strategic cities in China together with the hiring and training of local PRC staff. In line with this strategy, the Group has streamlined the headcount of its offices in Singapore, Taiwan, Korea and Hong Kong and anticipates that both synergies and savings will contribute positively in the coming years.

PROSPECTS

During the first half of the financial year ending 30 April 2003, the global economy continued to be volatile with weak consumer confidence, in view of the uncertainties associated with the possibility of US military action against Iraq. These uncertainties are expected to linger into the second half of the financial year. Notwithstanding the situation, the management is determined to stay on its expansion path. Leveraging its dynamic business structure and professional management team, organic growth is expected to be an important element in driving future growth.

Management remains cautiously optimistic as the Group's orders for the remainder of this financial year are now visible, and barring any unforeseen circumstances, the Group is confident of achieving its business plan for the financial year ending 30 April 2003.

The trend for retailers and brands to outsource their sourcing requirements is expected to further increase as they become more reliant on direct sourcing from Asia. Riding this trend, the Group is making solid progress in its discussions with a number of potential new customers and management remains confident that these discussions will bear fruit in the next financial year.

In addition to organic growth, the Group will also pursue growth by acquisition. With cash on hand of approximately US$32.3 million, the Group is actively seeking strategic merger and acquisition opportunities.

FINANCIAL REVIEW

The Group's financial position is very strong with cash and cash equivalents of approximately US$32.3 million as at 31 October 2002. In addition, the Group has banking facilities of approximately US$1.0 million which have not been utilised. The Group has continued to operate under a debt-free model with no outstanding debt as at 31 October 2002 except for a hire purchase loan for a motor vehicle at a net book value of approximately US$54,000. Up to the date of this interim report, there have been no material changes in the Group's borrowings since 31 October 2002.

The Group has a strong current ratio of 8.7 and a low gearing ratio of 0.001, based on liabilities of approximately US$39,000 and shareholders' equity of approximately US$42.1 million as at 31 October 2002. During the period under review, the Group's capital comprised solely shareholders' equity.

The Group's net asset value as at 31 October 2002 was approximately US$42.1 million.

As at 31 October 2002, the Group had no material contingent liability.

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, management believes that exchange risk is not significant.

USE OF PROCEEDS OF THE INITIAL PUBLIC OFFERING

The Company's shares were listed on the Main Board of the 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. After deduction of listing related expenses, net proceeds were approximately US$27.8 million.

As at 31 October 2002, a total of approximately US$0.8 million of the net proceeds has been used for IT investment (L.O.G.O.N. system), and setting up of a sourcing office in Shenzhen. The remaining of the net proceeds of approximately US$27.0 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.

REMUNERATION AND STAFF DEVELOPMENT SCHEME

As at 31 October 2002, the Group employed about 669 staff. The total staff costs for the period under review amounted to US$7,969,000 (2001: US$5,896,000). 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.

SHARE OPTIONS

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution of the sole shareholder of the Company passed on 22 April 2002. No option had been granted under the Scheme prior to 1 May 2002, being the commencement date of the six months ended 31 October 2002. Details of the options to subscribe for shares of the Company granted to eligible persons during the six months ended 31 October 2002 are shown as follows:

	Number of shares underlying options						
Date of grant	Granted to directors *(Note 1)*	Granted to other employees *(Note 3)*	Exercised	Lapsed	Outstanding as at 31 October 2002	Exercise price per share (HK$)	Exercise period
21/05/2002	17,240,000	23,430,000	–	(1,980,000)	38,690,000	2.55 *(Note 4)*	21/05/2003 – 20/05/2008
27/06/2002	1,660,000	1,600,000	–	–	3,260,000	2.22 *(Note 5)*	27/06/2003 – 26/06/2008
	18,900,000*(Note 2)*	25,030,000	–	(1,980,000)	41,950,000		

Notes:

1. Details of options granted to each of the directors are set out in the paragraph headed "Directors' rights to acquire shares or debentures" in this interim report below.

2. Out of these options, options to subscribe for an aggregate of 7,900,000 shares of the Company were granted to Mr. Steven Julien FENIGER, an executive director of the Company. The number of shares underlying such options (i.e. 7,900,000 shares in aggregate) are in excess of the individual limit permitted under the Listing Rules. Approval from shareholders of the Company in relation to the grant of options in excess of the individual limit to Mr. Steven Julien FENIGER was obtained at the annual general meeting of the Company held on 13 September 2002. Details of such options are disclosed in the Company's circular dated 19 August 2002.

3. Other employees include employees of the Group and of the subsidiaries of Roly International Holdings Ltd. ("Roly International"). (other than the directors of the Company) working under employment contracts with the Group or subsidiaries of Roly International which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

4. The closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on 17 May 2002, being the trading day immediately preceding the date of grant of the relevant options, was HK$2.60 per share.

5. The closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on 26 June 2002, being the trading day immediately preceding the date of grant of the relevant options, was HK$2.075 per share.

The options granted are not recognised in the financial statements until they are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the options, the resulting shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Options which have been lapsed or cancelled will be deducted from the outstanding options. Save for the options referred to in the above table which have lapsed during the six months ended 31 October 2002, no option has lapsed or been cancelled during the six months ended 31 October 2002.

The Directors consider that it is not appropriate to state the value of the share options granted to the eligible persons during the period on the ground that there are serious limitations in the application of the Black-Scholes Model and the Binomial Model in the valuation of share options, especially there are a number of variables which are crucial for the calculation of the options value thus rendering such value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SHARES

The interests of the directors and chief executive of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Cap. 396, Laws of Hong Kong) ("SDI Ordinance")) which had to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including any interests which they are taken or deemed to have under section 31 of, or part 1 of the Schedule to, the SDI Ordinance) or were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange, as at 31 October 2002, were as follows:

		Number of shares held				
Name of companies	**Name of directors**	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
The Company	WANG Lu Yen	620,000	–	468,000,000 *(Note 1)*	–	468,620,000
	KHOO Kim Cheng	60,000	–	–	–	60,000
Roly International *(Note 2)*	WANG Lu Yen	20,200,000	350,000 *(Note 3)*	121,243,500 *(Note 4)*	–	141,793,500
	FU Jin Ming, Patrick	1,380,000	–	–	–	1,380,000
	KHOO Kim Cheng	615,000	–	–	–	615,000
Westman Linmark (Thailand) Ltd. *(Note 5)*	WANG Lu Yen	2 preference shares	–	–	–	2 preference shares
	Steven Julien FENIGER	1 preference share	–	–	–	1 preference share
	FU Jin Ming, Patrick	1 preference share	–	–	–	1 preference share
	KHOO Kim Cheng	1 preference share	–	–	–	1 preference share
	KWOK Chi Kueng	1 preference share	–	–	–	1 preference share

Notes:

1. As at 31 October 2002, Mr. WANG Lu Yen, Mrs. WANG LIAW Bin Bin, his wife, and Megastar Holdings Limited, a company controlled by Mr. WANG Lu Yen, held approximately 35.9% of the issued share capital of Roly International. Mr. WANG Lu Yen is thus deemed, by virtue of the SDI Ordinance, to be interested in all the shares of the Company in which Roly International is interested.
2. As at 31 October 2002, Roly International, the ultimate holding company of the Company, through RGS Holdings Limited, held 468,000,000 shares, representing 72.3% of the issued share capital of the Company. As at 31 October 2002, the issued share capital of Roly International was US$39,489,276.40 divided into 394,892,764 shares of US$0.10 each.
3. These shares in Roly International were held by Mrs. WANG LIAW Bin Bin, the wife of Mr. WANG Lu Yen.
4. These shares in Roly International were held by Megastar Holdings Limited, the entire issued share capital of which is owned by Mr. WANG Lu Yen.
5. Westman Linmark (Thailand) Ltd. is a subsidiary of the Company. As at 31 October 2002, the issued share capital of Westman Linmark (Thailand) Ltd. was 6,000,000 Baht divided into 1,470 ordinary shares of 2,000 Baht each and 1,530 preference shares of 2,000 Baht each.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option schemes of Roly International, the ultimate holding company, the directors and employees of the Company may, at the discretion of the directors of Roly International, be granted options to subscribe for shares of Roly International. Particulars of the outstanding options granted to the directors of the Company as at 31 October 2002, were as follows:

Name of directors	Date of grant	Number of underlying shares of Roly International	Exercise price per share (US$)	Exercise period
Steven Julien FENIGER	07/03/2002	1,000,000	0.130	07/03/2004-06/03/2010
FU Jin Ming, Patrick	10/02/2000	45,000	0.150	10/02/2001–09/02/2005
	21/08/2001	1,000,000	0.100	21/08/2002–20/08/2009
	07/03/2002	1,000,000	0.130	07/03/2004–06/03/2010
KHOO Kim Cheng	26/02/1998	750,000	0.177	26/02/1999–25/02/2003
	10/02/2000	1,350,000	0.150	10/02/2001–09/02/2005
	21/08/2001	1,500,000	0.100	21/08/2002–20/08/2009
	07/03/2002	2,000,000	0.130	07/03/2004–06/03/2010
KWOK Chi Kueng	10/02/2000	45,000	0.150	10/02/2001–09/02/2005
	21/08/2001	200,000	0.100	21/08/2002–20/08/2009
	07/03/2002	400,000	0.130	07/03/2004–06/03/2010

For the six months ended 31 October 2002, the executive directors of the Company were granted the following options under the Scheme:

Name of directors	Date of grant	Number of underlying shares of the Company	Exercise price per share (HK$)	Exercise period
Steven Julien FENIGER	21/05/2002	6,240,000	2.55	21/05/2003 – 20/05/2008
	27/06/2002	1,660,000	2.22	27/06/2003 – 26/06/2008
FU Jin Ming, Patrick	21/05/2002	4,200,000	2.55	21/05/2003 – 20/05/2008
KHOO Kim Cheng	21/05/2002	3,800,000	2.55	21/05/2003 – 20/05/2008
KWOK Chi Kueng	21/05/2002	3,000,000	2.55	21/05/2003 – 20/05/2008

Note: Up to 31 October 2002, none of the above options granted by the Company to the directors of the Company had been exercised and all such options remained outstanding as at 31 October 2002.

Save as disclosed above, at no time during the period was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to 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.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company as at 31 October 2002:

Name of substantial shareholders	Number of shares of the Company held	Approximate percentage of issued shares of the Company held
RGS Holdings Limited	468,000,000	72.3%
Roly International *(Note 1)*	468,000,000	72.3%
WANG Lu Yen *(Note 2)*	468,000,000	72.3%

Notes:

1. RGS Holdings Limited is a wholly-owned subsidiary of Roly International. Roly International, by virtue of the SDI Ordinance, is deemed to be interested in all the shares of the Company in which RGS Holdings Limited is interested.

2. Mr. WANG Lu Yen, together with Mrs. WANG LIAW Bin Bin, his wife, and Megastar Holdings Limited, a company controlled by Mr. WANG Lu Yen, hold approximately 35.9% of the issued share capital of Roly International and Mr. WANG Lu Yen is thus deemed, by virtue of the SDI Ordinance, to be interested in all the shares of the Company in which Roly International is interested.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

INTERIM DIVIDEND

The Directors declared the payment of an interim dividend of 2.4 HK cents (equivalent to 0.3 US cent) per share in respect of the financial year ending 30 April 2003 payable on or about 6 February 2003 to shareholders whose names appear on the register of members of the Company on 29 January 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 January 2003 to 29 January 2003, 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 registrar of the Company, Standard Registrars Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong (up to 10 January 2003) or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (with effect from 13 January 2003) not later than 4.00 p.m. on 24 January 2003.

AUDIT COMMITTEE

The audit committee comprising Mr. WANG Arthur Minshiang and Mr. WONG Wai Ming, being the two 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 for the six months ended 31 October 2002 of the Group 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 2002.

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 Listing Rules since the listing date on 10 May 2002.

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 8 January 2003

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
WANG Lu Yen *(Chairman)*
Steven Julien FENIGER *(Chief Executive Officer)*
FU Jin Ming, Patrick
KHOO Kim Cheng
KWOK Chi Kueng

INDEPENDENT NON-EXECUTIVE DIRECTORS
WANG Arthur Minshiang
WONG Wai Ming

AUDIT COMMITTEE
WANG Arthur Minshiang
(Chairman of the Committee)
WONG Wai Ming

COMPANY SECRETARY
CHEUNG Hoi Yin, Brenda

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Hamilton HM 11, Bermuda

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Bank of Bermuda Building, 6 Front Street,
Hamilton HM 11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Standard Registrars Limited
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Bank of East Asia Harbour View Centre,
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AUDITORS
Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre,
111 Connaught Road Central, Hong Kong

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Citibank, N.A.
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