LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 0915

ANNOUNCEMENT OF UNAUDITED THIRD QUARTER RESULTS FOR THE NINE MONTHS ENDED 31 JANUARY 2004

HIGHLIGHTS:

- Net profit after tax amounted to approximately US$9.7 million (equivalent to HK$75.7 million), an increase of approximately 7.0% as compared to that for the corresponding period of last year.
- Shipment volume amounted to approximately US$482.9 million (equivalent to HK$3,766.6 million).
- Turnover recorded at approximately US$31.9 million (equivalent to HK$248.8 million).

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 nine months ended 31 January 2004 with comparative figures for the corresponding period of last year are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Consolidated Income Statements

		For the nine months ended 31 January	
		2004	2003
	Notes	***US$'000***	*US$'000*
Turnover	2	**31,868**	33,142
Cost of sales		**(4,375)**	(5,946)
Gross profit		**27,493**	27,196
Other operating income		**2,411**	1,307
Administrative expenses		**(19,968)**	(19,139)
Profit from operations	3	**9,936**	9,364
Finance costs		**(2)**	(2)
Profit before taxation		**9,934**	9,362
Taxation	4	**(206)**	(274)
Profit for the period		**9,728**	9,088
Earnings per share *(US cents)*	5		
— Basic		**1.5**	1.4
— Diluted		**1.5**	1.4

Consolidated Balance Sheets

	Notes	**At 31 January 2004** *(Unaudited)* *US$'000*	At 30 April 2003 *(Audited)* *US$'000*
NON-CURRENT ASSETS			
Machinery and equipment	6	**1,898**	1,900
Goodwill		**16,388**	—
Club membership		**83**	119
Deferred expenditure		**3,014**	3,014
		21,383	5,033
CURRENT ASSETS			
Trade receivables	7	**10,462**	5,725
Prepayments, deposits and other receivables		**3,309**	1,762
Amount due from a fellow subsidiary		**—**	11
Securities linked deposits		**—**	6,019
Bank balances and cash		**28,666**	31,920
		42,437	45,437
CURRENT LIABILITIES			
Trade payables	8	**820**	767
Accruals and other payables		**1,992**	1,842
Balance of purchase consideration payable for acquisition	9	**1,987**	—
Obligations under a finance lease — due within one year		**11**	22
Tax payable		**1,962**	1,146
		6,772	3,777
NET CURRENT ASSETS		**35,665**	41,660
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,048**	46,693

	Note	At 31 January 2004 (Unaudited) US$'000	At 30 April 2003 (Audited) US$'000
NON-CURRENT LIABILITIES			
Obligations under a finance lease — due after one year		**—**	6
Balance of purchase consideration payable for acquisition	9	**3,974**	—
Post-employment benefits		**1,225**	1,018
Deferred taxation		**27**	18
		5,226	1,042
NET ASSETS		**51,822**	45,651
CAPITAL AND RESERVES			
Share capital		**13,090**	12,948
Reserves		**38,732**	32,703
		51,822	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 nine months ended 31 January 2004		
	Sales of merchandise *US$'000*	**Services rendered** *US$'000*	**Total** *US$'000*
REVENUE			
External revenue	**5,531**	**26,337**	**31,868**
SEGMENT RESULTS	**567**	**8,206**	**8,773**
Unallocated corporate expenses			**(431)**
Interest income			**1,594**
Finance costs			**(2)**
Profit before taxation			**9,934**
Taxation			**(206)**
Profit for the period			**9,728**

	For the nine months ended 31 January 2003		
	Sales of merchandise *US$'000*	Services rendered *US$'000*	Total *US$'000*
REVENUE			
External revenue	7,151	25,991	33,142
SEGMENT RESULTS	636	7,996	8,632
Unallocated corporate expenses			(238)
Interest income			970
Finance costs			(2)
Profit before taxation			9,362
Taxation			(274)
Profit for the period			9,088

By Geographical Markets

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

	For the nine months ended 31 January	
	2004	2003
	US$'000	*US$'000*
United States	**11,280**	12,265
Canada	**9,540**	11,327
Europe	**2,887**	1,984
Hong Kong	**3,322**	2,327
Others	**4,839**	5,239
	31,868	33,142

3. Profit from Operations

	For the nine months ended 31 January	
	2004	2003
	US$'000	*US$'000*
Profit from operations has been arrived at after charging:		
Amortisation of goodwill	**172**	—
Depreciation of machinery and equipment	**710**	569

4. Taxation

	For the nine months ended 31 January	
	2004	2003
	US$'000	*US$'000*
The charge comprises:		
Hong Kong profits tax		
— current period	**—**	28
Income tax in other jurisdictions		
— current period	**299**	252
— (over)/underprovision in prior years	**(92)**	7
Deferred taxation	**(1)**	(13)
	206	274

5. Earnings per Share

The calculation of the basic earnings per share for the nine months ended 31 January 2004 is based on the profit attributable to shareholders of approximately US$9,728,000 (2003: US$9,088,000) and on the weighted average number of approximately 649,204,000 (2003: 642,030,000) shares in issue during the period.

The calculation of the diluted earnings per share for the nine months ended 31 January 2004 is based on the profit attributable to shareholders of approximately US$9,728,000 (2003: US$9,088,000) and on the weighted average number of approximately 662,988,000 (2003: 642,739,000) shares issued and issuable, comprising the weighted average number of approximately 649,204,000 (2003: 642,030,000) shares in issue during the period and the weighted average number of 13,784,000 (2003: 709,000) as adjusted for the dilutive effect of share options outstanding during the period.

6. Movements in Machinery and Equipment

During the nine months ended 31 January 2004, the Group spent approximately US$661,000 (2003: US$1,088,000) 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 January 2004	At 30 April 2003
	US$'000	*US$'000*
0–30 days	**5,677**	3,713
31–60 days	**2,084**	1,625
61–90 days	**665**	204
Over 90 days	**2,324**	891
	10,750	6,433
Less: Allowance for doubtful debts	**(288)**	(708)
	10,462	5,725

8. Trade Payables

The aged analysis of trade payables is as follows:

	At 31 January 2004	At 30 April 2003
	US$'000	*US$'000*
0–30 days	**450**	462
31–60 days	**147**	59
61–90 days	**47**	22
Over 90 days	**176**	224
	820	767

9. Acquisition of a Subsidiary

On 11 November 2003, the Company entered into an agreement to acquire 100% equity interest in ISO International (Holdings) Limited ("ISO International") at a consideration of approximately US$19.9 million. The transaction was completed on 14 November 2003. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	US$'000
Net assets acquired	3,574
Goodwill arising from acquisition	16,560
	20,134
Satisfied by:	
Cash consideration	19,872
Expenses incurred in respect of acquisition	262
	20,134
Net cash outflow arising from acquisition:	
Cash consideration and expenses incurred in respect of acquisition	20,134
Outstanding purchase consideration payable	(5,961)
Cash and cash equivalents acquired	(1,769)
	12,404

10. Related Party Transactions

Identity of related parties	*Notes*	Nature of transactions	For the nine months ended 31 January **2004** ***US$'000***	2003 *US$'000*
Subsidiaries of Roly International Holdings Ltd.	(i)	Commission income	**—**	3
	(ii)	Administrative charge	**—**	57
	(iii)	Sales of merchandise	**6**	10
	(iv)	Rental expense	**72**	—
Turmar Limited	(iv)	Rental expense	**98**	98
Digitech Holdings Limited	(v)	Consultancy fee	**3**	—

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.

Digitech Holdings Limited is a company 80% owned by Mr. Barry Richard PETTITT, a director of ISO International, a wholly owned subsidiary of the Company.

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 expense is determined based on market rate and floor area.

(v) Consultancy fee is charged in accordance with the terms of an agreement made between Digitech Holdings Limited and ISO International.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Against a background of lack-lustre consumer demand in apparel, the Group achieved an approximately 7.0% increase in net profit after tax to approximately US$9.7 million (equivalent to HK$75.7 million) for the period under review as compared to that for the corresponding period of last year.

Shipment volume was recorded at approximately US$482.9 million (equivalent to HK$3,766.6 million). Turnover was at approximately US$31.9 million (equivalent to HK$248.8 million), with buying agency and service income accounting for approximately 82.6% and sales of merchandise accounting for approximately 17.4%.

Performance for the period under review continued to reflect increased leverage from the Group's value-added service businesses, which include product development and design services, packaging and trim services, quality assurance, social compliance auditing services and the newly introduced eServices. Gross profit climbed to approximately US$27.5 million (equivalent to HK$214.5 million), translating into a gross profit margin of approximately 86.3%, up from approximately 82.1% for the corresponding period of last year. Basic earnings per share also increased to 1.5 US cents (equivalent to 11.7 HK cents).

Marking a major milestone in its development, the Group acquired ISO International, a Hong Kong based supply chain management company specialising in home lifestyle consumer electronic products with a solid customer base in Europe.

In addition to satisfactory operating results, the Group also gained widespread recognition in both the local and overseas sourcing industry. During the period under review, the Group received the Export Marketing Award in the 2003 Hong Kong Awards for Services organised by the Hong Kong Trade Development Council, reflecting the high service standards it offers to customers. The Group was also invited to speak at the Logistics 2004 Conference organised by the International Mass Retail Association (now known as "Retail Industry Leaders Association") in Florida, U.S. and participated in a panel with leading retailers such as Wal-Mart and Home Depot. These demonstrate the Group's growing industry standing in the global arena.

Financial Review

The Group's financial position is very strong with cash and bank balances of approximately US$28.7 million (equivalent to HK$223.9 million) as at 31 January 2004. In addition, the Group has banking facilities of approximately US$3.5 million (equivalent to HK$27.3 million) which have not been utilised. The Group has continued to operate under a debt-free model with no outstanding debt as at 31 January 2004 except a hire purchase loan for a motor vehicle.

The Group has a strong current ratio of 6.3 and a low gearing ratio of 0.0002, based on interest bearing borrowing of approximately US$11,000 (equivalent to HK$86,000) and shareholders' equity of approximately US$51.8 million (equivalent to HK$404.0 million) as at 31 January 2004. During the period under review, the Group's capital comprised solely shareholders' equity.

The Group's net asset value as at 31 January 2004 amounted to approximately US$51.8 million (equivalent to HK$404.0 million). There has not been any material change in the Group's borrowings since 31 January 2004.

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, the management believes the exchange risk is not significant at this time.

Prospects

With global retail markets becoming increasingly integrated, supply chain management is also gaining in sophistication. With its decades of sourcing expertise, especially in the Asian region, the Group is committed to excelling and taking advantage of every opportunity. The gradual pick-up in the European and U.S. economies is also expected to provide a conducive environment for the Group in the rest of the financial year ending 30 April 2004.

To accomplish this goal, the Group will adhere to its established growth strategies. Value-added services are expected to grow further, driving both the Group's top and bottom lines in business.

The Group's focus on diversification will also remain. In this respect, ISO International is expected to be an important engine with its sourcing expertise in consumer electronic products and solid customer base in Europe. In addition to stimulating expansion of hardgoods business, ISO International also brings cross-selling opportunities for the Group, helping to enhance the Group's role as a one-stop global sourcing company.

The Group's merger and acquisition plans will be of significant importance in driving further growth. With clear criteria and a strong pool of financial resources, the management will continue to maintain an open view in this regard.

Based on the current assessment, the management maintains an overall positive view for the rest of the financial year ending 30 April 2004.

DIVIDEND

The Directors do not declare the payment of dividend for the three months ended 31 January 2004.

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 period under review.

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 of Hong Kong Limited ("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 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, 22 March 2004

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* *For identification purpose only*

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