LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 915

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 APRIL 2004

FINAL RESULTS HIGHLIGHTS

- Profit after taxation amounted to approximately US$14.6 million (equivalent to HK$113.9 million), an increase of approximately 18.6% as compared to last year.
- Shipment volume amounted to approximately US$714.1 million (equivalent to HK$5,570.0 million).
- Turnover recorded at approximately US$44.3 million (equivalent to HK$345.5 million).

AUDITED RESULTS

The board of directors ("Board" or "Directors") of Linmark Group Limited ("Company" or "Linmark") is pleased to announce that the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 30 April 2004 with comparative figures for the previous corresponding year are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statements

	Notes	**2004**	2003
		US$'000	*US$'000*
Turnover	2	**44,338**	44,294
Cost of sales		**(5,652)**	(7,104)
Gross profit		**38,686**	37,190
Other operating income		**2,947**	1,757
Administrative expenses		**(26,861)**	(26,233)
Profit from operations	3	**14,772**	12,714
Finance costs		**(4)**	(2)
Profit before taxation		**14,768**	12,712
Taxation	4	**(143)**	(384)
Profit for the year		**14,625**	12,328
Dividends	5		
— Interim, paid		**2,095**	1,992
— Final, proposed		**3,773**	2,928
		5,868	4,920
Earnings per share (US cents)	6		
— Basic		**2.3**	1.9
— Diluted		**2.2**	1.9

Consolidated Balance Sheets

	Notes	At 30 April 2004 *US$'000*	At 30 April 2003 *US$'000*
NON-CURRENT ASSETS			
Machinery and equipment	7	**2,176**	1,900
Club membership		**83**	119
Goodwill		**16,181**	—
Deferred expenditure		**3,014**	3,014
		21,454	5,033
CURRENT ASSETS			
Trade receivables	8	**10,535**	5,725
Prepayments, deposits and other receivables		**2,202**	1,762
Amount due from a fellow subsidiary		**—**	11
Short term investment		**109**	—
Securities linked deposits		**—**	6,019
Bank balances and cash		**34,869**	31,920
		47,715	45,437
CURRENT LIABILITIES			
Trade payables	9	**923**	767
Accruals and other payables		**2,478**	1,842
Tax payable		**1,861**	1,146
Obligations under a finance lease — due within one year		**6**	22
Balance of consideration payable for acquisition — due within one year	10	**1,987**	—
		7,255	3,777
NET CURRENT ASSETS		**40,460**	41,660
TOTAL ASSETS LESS CURRENT LIABILITIES		**61,914**	46,693
NON-CURRENT LIABILITIES			
Obligations under a finance lease — due after one year		**—**	6
Balance of consideration payable for acquisition — due after one year	10	**3,974**	—
Post-employment benefits		**1,272**	1,018
Deferred taxation		**21**	18
		5,267	1,042
NET ASSETS		**56,647**	45,651
CAPITAL AND RESERVES			
Share capital		**13,090**	12,948
Reserves		**43,557**	32,703
		56,647	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 short term investment, 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 year by principal activities and geographical markets is as follows:

By Principal Activities

	For the year ended 30 April 2004		
	Sales of merchandise	**Services rendered**	**Total**
	US$'000	***US$'000***	***US$'000***
REVENUE			
External revenue	**7,353**	**36,985**	**44,338**
SEGMENT RESULTS	**300**	**12,868**	**13,168**
Unallocated corporate expenses			**(556)**
Interest income			**2,160**
Finance costs			**(4)**
Profit before taxation			**14,768**
Taxation			**(143)**
Profit for the year			**14,625**

	For the year ended 30 April 2003		
	Sales of merchandise	Services rendered	Total
	US$'000	*US$'000*	*US$'000*
REVENUE			
External revenue	**8,593**	**35,701**	**44,294**
SEGMENT RESULTS	**409**	**11,389**	**11,798**
Unallocated corporate expenses			**(321)**
Interest income			**1,237**
Finance costs			**(2)**
Profit before taxation			**12,712**
Taxation			**(384)**
Profit for the year			**12,328**

By Geographical Markets

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

	2004	2003
	US$'000	*US$'000*
United States	**15,132**	17,182
Canada	**12,168**	14,606
Europe	**6,047**	2,784
Hong Kong	**4,169**	3,244
Others	**6,822**	6,478
	44,338	44,294

3. Profit from Operations

	2004	2003
	US$'000	*US$'000*
Profit from operations has been arrived at after (crediting)/charging:		
Interest income	**(2,160)**	(1,237)
Reimbursement income from customers	**(224)**	(206)
Amortisation on goodwill	**379**	—
Depreciation of machinery and equipment	**966**	761

4. Taxation

	2004	2003
	US$'000	*US$'000*
The charge comprises:		
Hong Kong profits tax		
— current year	**135**	33
Income tax in other jurisdictions		
— current year	**307**	357
— (over)/underprovision in prior years	**(293)**	6
Deferred taxation	**(6)**	(12)
	143	384

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 year ended 30 April 2003.

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.

On 16 January 2004, a dividend of 2.5 HK cents per share was paid to shareholders of the Company as the interim dividend for the year ended 30 April 2004.

The Directors recommend the payment of a final dividend of 4.5 HK cents per share in respect of the year ended 30 April 2004. Subject to shareholders' approval, the final dividend will be paid in cash on or about 19 August 2004 to shareholders whose names appear on the register of members of the Company on 16 August 2004.

6. Earnings Per Share

The calculation of the basic earnings per share for the year ended 30 April 2004 is based on the profit attributable to shareholders of approximately US$14,625,000 (2003: US$12,328,000) and on the weighted average number of approximately 650,598,000 (2003: 643,340,000) shares in issue during the year.

The calculation of the diluted earnings per share for the year ended 30 April 2004 is based on the profit attributable to shareholders of approximately US$14,625,000 (2003: US$12,328,000) and on the weighted average number of approximately 664,645,000 (2003: 645,087,000) shares issued and issuable, comprising the weighted average number of approximately 650,598,000 (2003: 643,340,000) shares in issue during the year and the weighted average number of 14,047,000 (2003: 1,747,000) as adjusted for the dilutive effect of share options outstanding during the year.

7. Movements in Machinery and Equipment

During the year ended 30 April 2004, the Group spent approximately US$1,207,000 (2003: US$1,352,000) on acquisition of machinery and equipment.

8. Trade Receivables

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

	2004	2003
	US$'000	*US$'000*
0–30 days	**7,813**	3,713
31–60 days	**1,429**	1,625
61–90 days	**337**	204
Over 90 days	**1,245**	891
	10,824	6,433
Less: Allowance for doubtful debts	**(289)**	(708)
	10,535	5,725

9. Trade Payables

The aged analysis of trade payables is as follows:

	2004	2003
	US$'000	*US$'000*
0–30 days	**425**	462
31–60 days	**214**	59
61–90 days	**154**	22
Over 90 days	**130**	224
	923	767

10. 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
Balance of consideration payable	(5,961)
Cash and cash equivalents acquired	(1,769)
	12,404

11. Related Party Transactions

During the year under review, the Group had the following significant related party transactions:

Identity of related parties	**Notes**	**Nature of transactions**	**2004** ***US$'000***	**2003** *US$'000*
Subsidiaries of Roly International Holdings Ltd.	(i)	Rental expenses	**86**	—
	(ii)	Sales of merchandise	**13**	21
	(iii)	Administrative charge	**—**	57
	(iv)	Commission income	**—**	3
Turmar Limited	(i)	Rental expenses	**131**	131

Subsidiaries of Roly International Holdings Ltd. are the 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) Rental expense is determined based on market rate and floor area.
(ii) Sales are based on cost plus a percentage of profit mark-up.
(iii) Administrative charge represents reimbursements to a fellow subsidiary.
(iv) Commission income is based on a percentage of the shipment amount.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

For the year ended 30 April 2004, the Group recorded higher shipment volume of approximately US$714.1 million (equivalent to HK$5,570.0 million), representing an increase of approximately 12.8% as compared to last year. Turnover was reported at approximately US$44.3 million (equivalent to HK$345.5 million). Buying agency and service income continued to be the major source of revenues, accounting for approximately 83.4% of the total turnover. Sales of merchandise contributed to the remaining approximately 16.6%.

The Group's profit continued to improve. Profit after taxation attributable to shareholders rose by approximately 18.6% to reach approximately US$14.6 million (equivalent to HK$113.9 million). The Group also achieved higher levels of profit margins. Gross profit margin improved from approximately 84.0% to 87.3% whilst net margin as a percentage of shipment volume climbed from approximately 1.95% to 2.05%. This was mainly attributable to the increased contribution of our hardgoods business and value-added services, which we have identified as major drivers for business margins.

Market Overview

The Group continued to make good progress in diversifying its business geographically, boasting particularly a larger presence in the European market.

US Market

The US continued to be the Group's largest market, generating turnover of approximately US$15.1 million (equivalent to HK$117.8 million), representing approximately 34.1% of the total turnover. In January 2004, Linmark was invited to speak on the topic of "Sourcing from the Far East" at the 2004 Logistics Conference organised by the International Mass Retail Association (now known as Retail Industry Leaders Association), a leading retail trade body in the US. The invitation represented the recognition of the Group's expertise in sourcing by the retail industry in the US, thus helping to promote Linmark's profile in one of the most important apparel markets in the world.

Canadian Market

The Canadian market brought in turnover of approximately US$12.2 million (equivalent to HK$95.2 million) during the year under review, making up approximately 27.5% of the Group's total turnover. Sluggish consumer demand in Canada affected apparel sales. However, by providing more value-added services to its customers, the Group secured a stable share of the market.

European Market

Europe was our third largest market and, during the year under review, turnover from this market jumped from approximately US$2.8 million (equivalent to HK$21.8 million) to approximately US$6.0 million (equivalent to HK$46.8 million). The European market represented an increase of approximately 117.2% over the previous financial year. Its share of the total turnover also rose from approximately 6.3% to 13.6%. The credit for this strong growth goes to the Group's new hardgoods business arm, which has a solid customer base in Europe.

Hong Kong and Other Markets

During the year under review, the Group's turnover from Hong Kong and other markets was approximately US$11.0 million (equivalent to HK$85.7 million). In addition to a satisfactory operating performance in these markets, the Company received the Export Marketing Award in the 2003 Hong Kong Awards for Services organised by the Hong Kong Trade Development Council in January 2004, recognising the high standards of services offered by the Group.

Hardgoods Development

The Group acquired the entire equity interest in ISO International for a consideration of approximately US$19.9 million (equivalent to HK$155.0 million) in November 2003. With a solid customer base in Europe, ISO International is a supply chain management company specialising in home lifestyle consumer electronic products. As the acquisition was only made in November 2003, the Group's results for the year under review reflected only about 5-month's contribution from ISO International. For the year under review, turnover from hardgoods business amounted to approximately US$8.1 million (equivalent to HK$63.2 million), approximately 52.8% higher than the previous financial year. Its share of the total turnover also climbed from approximately 12.0% to 18.3%. Details of the Group's acquisition of ISO International are set out in the Company's announcement dated 12 November 2003 and the Company's circular dated 28 November 2003.

In addition to working to bring about efficient integration of ISO International with Linmark's other operations, the Group is also committed to promoting ISO International's organic growth. In April 2004, ISO International formed a strategic alliance with PSB Certification Pte Ltd, a wholly owned subsidiary of SPRING Singapore, the former Singapore Productivity and Standards Board. As a provider of one-stop sourcing services including consultancy, design, sourcing and procurement, quality inspection, fulfillment and certification services, the alliance is expected to strengthen ISO International's capabilities to undertake ISO certification services, helping customers achieve the highest product quality.

Value-added Services

During the year under review, turnover from the Group's value-added services, which enjoy higher margins, went up a further approximately 13.8% to reach approximately US$12.4 million (equivalent to HK$96.7 million). Its share of the total turnover also rose to approximately 28.0%. The Group's wide offer of value-added services for customers included product development and design services, packaging and trim services, quality assurance services and social compliance auditing services. The importance of the Group's L.O.G.O.N. system also went beyond facilitating operations. In November 2003, eServices, a suite of supply chain management functions of the L.O.G.O.N. system, was introduced as a business product and has been sold to customers and vendors. Management expects contributions from the value-added services to the Group's total turnover to continue to grow well in the coming years.

China Expansion

The Group has identified China early on as an important market to grow. With its entry into the World Trade Organisation, China has become more integrated with the world and its retail sector has seen many changes. To capitalise on opportunities in the retail sector, Linmark actively sought to further promote its presence in the China market during the year under review. It co-hosted, through Roly International Holdings Ltd., its parent company, for the second time, the China

Department Store Summit held in Beijing in April 2004. The management regards the summit as a valuable channel to introduce Linmark's sourcing solutions to Chinese retailers who are in search of more innovative business solutions.

In May 2004, the Group signed a letter of intent with the China Textile Information Centre ("CTIC") and China Textiles Development Centre ("CTDC"), which are subordinate organisations of the China National Textile Industry Council (the former Textile Ministry), to form a joint venture to jointly promote Chinese apparel and textile in the global marketplace. The CTIC and CTDC are commissioned by the Chinese government to modernise the textile industry of China. The proposed joint venture with the two centres will concentrate on lab testing, social compliance and the marketing of Chinese textiles, and in the view of management, it will serve as a valuable gateway for the Group to expand and strengthen its presence in the China market.

Network Expansion

One of the competitive strengths of Linmark is its global marketing and supplier network and, as such, regular reviews are undertaken to enhance this network. On the marketing front, we added presence in Los Angeles, New York, Toronto, Paris and Manchester, which allows Linmark to get closer to its customers. On the supplier side, there were the addition of the Guangzhou office and presence in Qing Dao in China, Matsapha in Swaziland and Dubai in United Arab of Emirates. These initiatives demonstrated the Group's commitment to constantly improve its sourcing capabilities.

Financial Review

The Group's financial position is strong with cash and cash equivalents of approximately US$34.9 million (equivalent to HK$272.2 million) as at 30 April 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 no outstanding net debt as at 30 April 2004 except a hire purchase loan for a motor vehicle at a net book value of approximately US$34,000 (equivalent to HK$265,000).

The Group has a strong current ratio of 6.6 and a negligible gearing ratio of less than 0.1%, based on the interest bearing borrowing of approximately US$6,000 (equivalent to HK$47,000) and shareholders' equity of approximately US$56.6 million (equivalent to HK$441.5 million), as at 30 April 2004. During the year under review, the Group's capital consisted solely of shareholders' equity. There are no material changes in the Group's borrowing since 30 April 2004.

The Group's net asset value as at 30 April 2004 was approximately US$56.6 million (equivalent to HK$441.5 million).

As at 30 April 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 the exchange risk is not significant at this time.

Remuneration Policy and Staff Development Scheme

As at 30 April 2004, the Group had 780 staff. The total staff costs for the year under review amounted to approximately US$16.9 million (equivalent to HK$131.8 million) (2003: US$16.9 million (equivalent to HK$131.8 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.

Prospects

Given a gradually improving global economy, the global retail industry is expected to develop steadily. However, changes are likely in the pattern of supply chain management, and in particular in the sourcing industry due to the abolishment of apparel quotas in 2005 — is expected to alter the rules of the game in the sourcing industry, creating opportunities as well as challenges.

Faced with the evolving industry environment, Linmark will continue to pursue its business objectives. The continuous expansion of value-added services business and hardgoods sourcing, especially for home lifestyle consumer electronic products, will continue to be the Group's two major growth drivers. It will also seek to further diversify its market presence, particularly in the European continent. More efforts will also be devoted into developing the hardgoods business. These strategies will continue to be important tools for enhancing the overall business margins.

The Group sees expanding the China market as one of its major development tasks. The proposed joint venture with CTIC and CTDC will be an important platform for tapping potential opportunities for Linmark's value-added services. Therefore, the Group will continue to cultivate and seize opportunities in the China market to ensure medium and long term growth.

Whilst organic growth and securing new customers are instrumental to advancing growth, the Group will remain open to merger and acquisition opportunities to help achieve its business objectives.

DIVIDENDS

An interim dividend of 2.5 HK cents per share was declared and paid during the year under review.

The Directors recommend the payment of a final dividend of 4.5 HK cents per share in respect of the year ended 30 April 2004. Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be paid in cash on or about 19 August 2004 to shareholders whose names appear on the register of members of the Company on 16 August 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 August 2004 to 16 August 2004, both days inclusive. In order to qualify for the proposed final 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, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4.00 p.m. on 11 August 2004.

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.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. At present, members of the audit committee comprise Mr. WANG Arthur Minshiang, Mr. WONG Wai Ming and Dr. WOON Yi Teng, Eden, being the three independent non-executive directors of the Company. 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 report to the audit committee for audited financial statements of the Group for the year ended 30 April 2004 issued by the external auditors.

The audit committee has also reviewed the terms and conditions of connected transactions of the Company took place during the year under review.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 April 2004, the Company repurchased 496,000 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*
April 2004	496,000	2.85	2.70	1,388

Save as disclosed above, at no time during the year ended 30 April 2004 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

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 for the year ended 30 April 2004.

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

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules in force during the year under review will be published on the Stock Exchange's website in due course.

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 23 June 2004

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* *For identification purpose only*

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