LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 915

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 JULY 2005

HIGHLIGHTS:

- Profit after taxation amounted to approximately US$2.1 million (equivalent to HK$16.4 million).
- Turnover amounted to approximately US$40.8 million (equivalent to HK$318.2 million).
- Shipment value amounted to approximately US$175.0 million (equivalent to HK$1,365.0 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 2005, together with comparative figures for the previous corresponding period, are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

		Unaudited For the three months ended 31 July	
		2005	2004
	Notes	***US$'000***	*US$'000*
Turnover	2	**40,828**	11,168
Cost of sales		**(29,131)**	(2,148)
Gross profit		**11,697**	9,020
Other operating income		**551**	566
Administrative expenses		**(9,810)**	(7,585)
Profit from operations	3	**2,438**	2,001
Finance costs		**(30)**	(1)
Gain on dissolution of a subsidiary		**—**	14
Share of loss of a joint venture		**(14)**	—
Profit before taxation		**2,394**	2,014
Taxation	4	**(313)**	(73)
Profit for the period, attributable to equity holders of the Company		**2,081**	1,941
Earnings per share *(US cent)*	5		
— Basic		**0.3**	0.3
— Diluted		**0.3**	0.3

Consolidated Balance Sheet

	Notes	At 31 July 2005 (Unaudited) *US$'000*	At 30 April 2005 (Audited) *US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	6	**3,079**	3,119
Goodwill		**42,446**	42,446
Deferred expenditure		**3,014**	3,014
Club membership		**83**	83
Investment in a joint venture		**156**	170
		48,778	48,832
CURRENT ASSETS			
Inventories		**32**	55
Trade receivables	7	**27,092**	20,308
Prepayments, deposits and other receivables		**3,541**	3,709
Bank balances and cash		**38,952**	27,323
		69,617	51,395
CURRENT LIABILITIES			
Trade payables	8	**16,718**	9,144
Accruals and other payables		**6,916**	6,588
Amount due to an immediate holding company	9	**6,725**	—
Short-term bank loan		**7,850**	2,300
Balance of consideration payable for an acquisition of a subsidiary — due within one year		**1,987**	1,987
Balance of consideration payable for an acquisition of business and assets — due within one year		**2,602**	4,474
Tax payable		**1,681**	1,454
		44,479	25,947
NET CURRENT ASSETS		**25,138**	25,448
TOTAL ASSETS LESS CURRENT LIABILITIES		**73,916**	74,280
NON-CURRENT LIABILITIES			
Balance of consideration payable for an acquisition of a subsidiary — due after one year		**1,987**	1,987
Balance of consideration payable for an acquisition of business and assets — due after one year		**2,603**	5,205
Post-employment benefits		**1,702**	1,651
Deferred tax liabilities		**117**	118
		6,409	8,961
NET ASSETS		**67,507**	65,319
CAPITAL AND RESERVES			
Share capital		**13,113**	13,113
Reserves		**54,394**	52,206
		67,507	65,319

Notes:

1. Principal Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 30 April 2005.

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 2005		
	Sales of merchandise *US$'000*	**Provision of services** *US$'000*	**Total** *US$'000*
REVENUE			
External revenue	**32,865**	**7,963**	**40,828**
SEGMENT RESULTS	**1,218**	**1,161**	**2,379**
Interest income			**193**
Unallocated corporate expenses			**(134)**
Finance costs			**(30)**
Share of loss of a joint venture			**(14)**
Profit before taxation			**2,394**
Taxation			**(313)**
Profit for the period			**2,081**

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

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	
	2005	2004
	US$'000	*US$'000*
Europe	**16,206**	977
Australia	**7,720**	—
South Africa	**6,054**	463
United States	**4,085**	4,371
Canada	**1,264**	2,593
Others	**5,499**	2,764
	40,828	11,168

3. Profit from Operations

Profit from operations has been arrived at after (crediting)/charging:

	Unaudited For the three months ended 31 July	
	2005	2004
	US$'000	*US$'000*
Interest income	**(193)**	(450)
Reimbursement income from customers	**(44)**	(66)
Amortisation of goodwill	**—**	207
Depreciation of property, plant and equipment	**311**	264

4. Taxation

Taxation charge comprises:

	Unaudited For the three months ended 31 July	
	2005	2004
	US$'000	*US$'000*
Hong Kong profits tax		
— current period	**245**	27
— under provision in prior years	**3**	—
Income tax in other jurisdictions		
— current period	**63**	34
— under provision in prior years	**4**	12
Deferred taxation	**(2)**	—
	313	73

5. Earnings Per Share

The calculation of the basic earnings per share for the three months ended 31 July 2005 is based on the profit attributable to equity holders of approximately US$2,081,000 (2004: US$1,941,000) and on the weighted average number of approximately 655,634,000 (2004: 654,107,000) shares in issue during the financial period.

The calculation of the diluted earnings per share for the three months ended 31 July 2005 is based on the profit attributable to equity holders of approximately US$2,081,000 (2004: US$1,941,000) and on the weighted average number of approximately 660,890,000 (2004: 664,606,000) shares issued and issuable, comprising the weighted average number of approximately 655,634,000 (2004: 654,107,000) shares in issue during the financial period and the weighted average number of approximately 5,256,000 (2004: 10,499,000) shares, as adjusted for the dilutive effect of share options outstanding during the financial period.

6. Movements in Property, Plant and Equipment

During the three months ended 31 July 2005, the Group spent approximately US$364,000 (2004: US$266,000) on acquisition of property, plant and equipment.

7. Trade Receivables

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

	At 31 July 2005 (Unaudited) ***US$'000***	At 30 April 2005 (Audited) *US$'000*
0–30 days	**14,031**	13,237
31–60 days	**5,299**	3,453
61–90 days	**761**	578
Over 90 days *(Notes (i) & (ii))*	**7,606**	3,649
	27,697	20,917
Less: Allowance for doubtful debts	**(605)**	(609)
	27,092	20,308

Notes:

(i) As of the date of this announcement, approximately US$2.0 million of this balance has subsequently been settled since 31 July 2005.

(ii) Approximately US$3.0 million of this balance relates to customers which have credit terms of 90 days or more.

8. Trade Payables

The aging analysis of trade payables is as follows:

	At 31 July 2005 (Unaudited) ***US$'000***	At 30 April 2005 (Audited) *US$'000*
0–30 days	**8,367**	6,547
31–60 days	**4,589**	759
61–90 days	**2,090**	227
Over 90 days	**1,672**	1,611
	16,718	9,144

9. Amount Due to an Immediate Holding Company

The amount is unsecured, interest free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Following the acquisitions of ISO International (Holdings) Limited in November 2003 and the business of Tamarind International Limited ("Tamarind") in December 2004 and pending the completion of the acquisition of 60% interest in Dowry Peacock Group Limited ("Dowry Peacock") which is expected to be by end of October 2005, a significant proportion of the Group's businesses will be undertaken by charging our customers on the basis of shipment value (trading model) instead of on the basis of commission (commission agent model) which was historically predominating. The Group's performance, as a result of the mixture of the two business models, will better be analysed by examining the shipment value rather than by focusing on the turnover recorded during the period under review. Accordingly, the table below shows the shipment value in the two accounting periods:

	Unaudited For the three months ended 31 July	
	2005	2004
	US$'million	*US$'million*
North America	**102.6**	128.7
Europe	**25.1**	19.2
Australia	**7.7**	—
Others	**39.6**	19.5
	175.0	167.4

For the three months ended 31 July 2005, Linmark continued to achieve solid business progress despite the challenging global market environment. High oil prices and rising interest rates have weakened the consumption expectation of the Group's key customers in North America. In addition, safeguard mechanisms and quota category caps adopted by the US and EU on apparel from China created uncertainties.

Unless as otherwise noted, the discussions herein are between the period under review and the same period last year.

The Group reported an approximately 4.5% increase in shipment value from approximately US$167.4 million (equivalent to HK$1,305.7 million) to approximately US$175.0 million (equivalent to HK$1,365.0 million). Turnover rose approximately 265.6% to reach approximately US$40.8 million (equivalent to HK$318.2 million). The increase in turnover was mainly contributed by Tamarind, the business acquired in December 2004. Tamarind, operating under a trading model, generated a significantly higher turnover from the sales of merchandise than the traditional commission-based buying agency business of the Group.

Operating expenses increased by approximately US$2.2 million (equivalent to HK$17.2 million) from approximately US$7.6 million (equivalent to HK$59.3 million) to approximately US$9.8 million (equivalent to HK$76.4 million), principally due to additional expenses incurred by the Tamarind business. Profit attributable to equity holders of the Company grew approximately 7.2% to approximately US$2.1 million (equivalent to HK$16.4 million). Basic earnings per share maintained at approximately 0.3 US cent (equivalent to 2.3 HK cents). The Board does not recommend the payment of dividend for the period under review.

The acquisition of Tamarind significantly boosted our business in the European market and Australian market. During the period under review, shipment value contributed by Europe increased from approximately US$19.2 million (equivalent to HK$149.8 million) to approximately US$25.1 million (equivalent to HK$195.8 million), representing an increase of approximately 30.7%. Shipment value contributed by Australia grew from nil to approximately US$7.7 million (equivalent to HK$60.1 million). As a result of the weakened consumption expectation of the Group's key customers in North America, the shipment value from North America which comprises the US and Canada reduced from approximately US$128.7 million (equivalent to HK$1,003.9 million) to approximately US$102.6 million (equivalent to HK$800.3 million), representing a decrease of approximately 20.3%.

On 16 August 2005, the Group announced that its wholly owned subsidiary, Benchmark Profits Limited, had entered into a conditional sale and purchase agreement to acquire 60% of the issued share capital of Dowry Peacock, a UK-based consumer electronics products brand owner and supply chain management company. The total consideration for the acquisition, subject to adjustments, is approximately GBP24.0 million (equivalent to HK$338.4 million), of which 85% will be satisfied by cash and the remaining 15% by the issue of new Linmark shares. The acquisition is expected to be completed by end of October 2005.

Dowry Peacock is principally engaged in the business of consultancy, design, sourcing, planning, procurement, quality inspection, brand and warranty management of home entertainment and consumer electronics products. Its major customers include leading supermarkets and mass merchandise retailers predominantly in the UK. Dowry Peacock also owns four major brands focusing on consumer electronics and small domestic appliance products — "Dual", "Nordmende", "Pacific" and "Digilogic". Products carrying these brands are sold primarily in the UK, France and Germany.

The consideration will be settled in four installments, subject to an adjustment mechanism based on the target net profit after taxation for the financial periods between 2005 and 2008. The initial payment of approximately GBP10.8 million (equivalent to HK$152.3 million), representing approximately 45% of the total consideration, is payable on completion of the acquisition. Balance of the consideration will be settled in three equal installments over a three-year period starting from 2006.

Financial Review

The Group's financial position remains strong with bank balances and cash of approximately US$39.0 million (equivalent to HK$304.2 million), and approximately US$46.6 million (equivalent to HK$363.5 million) in total banking facilities as at 31 July 2005.

The Group's current ratio was 1.57 and gearing ratio was low at 0.12. Gearing ratio is calculated based on interest-bearing borrowings of approximately US$7.9 million (equivalent to HK$61.6 million) and shareholders' equity of approximately US$67.5 million (equivalent to HK$526.5 million) as at 31 July 2005. During the period under review, the Group's capital comprised solely shareholders' equity.

The Group's unaudited net asset value as at 31 July 2005 was approximately US$67.5 million (equivalent to HK$526.5 million).

As at 31 July 2005, pledges of bank deposits amounted to approximately US$12.8 million (equivalent to HK$99.8 million) to cover banking facilities in the ordinary course of business. The Group had no material contingent liability as at 31 July 2005 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 Hong Kong dollar is pegged to US dollar, management believes that the Group is not exposed to any major risks from exchange rate fluctuation.

Prospects

For the remaining quarters of the current financial year, although the industry will still face uncertainties, the Group is confident that its core sourcing business will continue to do well. Episodes like the revaluation of the Renminbi and the protectionist stance taken by the US and EU against Chinese apparel imports will continue to create uncertainties and affect customers' buying decisions. Nevertheless, Linmark is positioned to offer timely recommendations and appropriate sourcing solutions to its customers riding on its global network spanning 37 cities in 25 countries and territories. That plus the growing outsourcing trend will see Linmark grasp more business opportunities with the support of its comprehensive services and flexible business model.

Apart from organic growth, the acquisition of Dowry Peacock will boost both Linmark's top and bottom lines. It is the largest acquisition the Group will undertake since its IPO in 2002. Dowry Peacock will allow the Group to broaden its customer base and geographic reach in Europe and will enable the Group to expand its hardgoods business. There are enormous synergies in the existing services offered by Linmark and Dowry Peacock. Management sees potential for cross-selling Linmark's non-technical hardgoods and apparel offerings to an enlarged customer base in Europe. It is expected that Dowry Peacock will start contributing to the results of the Group in the second half of the current financial year. The Group believes the acquisition will further enhance shareholder value.

To expand the Group's business, management will continue to seek for acquisition opportunities that can help accelerating business growth and enabling Linmark to realise its corporate objectives of enriching its value-added services and market and product diversification.

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

DIVIDEND

The Directors do not recommend the payment of dividend for the three months ended 31 July 2005.

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 period under review.

REVIEW OF RESULTS

The audit committee, comprising the three independent non-executive Directors referred to below, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters for the three months ended 31 July 2005. The unaudited results have not been reviewed by the external auditors of the Company.

BOARD OF DIRECTORS

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

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 13 September 2005

Principal Place of Business in Hong Kong:
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Hunghom, Kowloon, Hong Kong

* *For identification purpose only*

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