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 NINE MONTHS ENDED 31 JANUARY 2005

HIGHLIGHTS:

- Profit after taxation amounted to approximately US$10.7 million (equivalent to HK$83.5 million) for the nine months ended 31 January 2005, an increase of approximately 10.0% as compared to the corresponding period of last year.
- Turnover grew by approximately 60.4% to approximately US$51.1 million (equivalent to HK$398.6 million) for the nine months ended 31 January 2005 as compared to the corresponding period of last year.
- Shipment volume amounted to approximately US$547.9 million (equivalent to HK$4,273.6 million) for the nine months ended 31 January 2005.

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 nine months ended 31 January 2005, together with comparative figures for the previous corresponding period, are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	For the nine months ended 31 January **2005** **(Unaudited)** ***US$'000***	2004 (Unaudited) *US$'000*
Turnover	3	**51,120**	31,868
Cost of sales		**(17,550)**	(4,375)
Gross profit		**33,570**	27,493
Other operating income		**1,644**	2,411
Administrative expenses		**(24,169)**	(19,968)
Profit from operations	4	**11,045**	9,936
Finance costs		**(6)**	(2)
Gain on dissolution of a subsidiary		**14**	—
Profit before taxation		**11,053**	9,934
Taxation	5	**(354)**	(206)
Profit for the period		**10,699**	9,728
Earnings per share (US cents)	6		
— Basic		**1.6**	1.5
— Diluted		**1.6**	1.5

Consolidated Balance Sheet

	Notes	**At 31 January 2005** **(Unaudited)** ***US$'000***	At 30 April 2004 (Audited) *US$'000*
NON-CURRENT ASSETS			
Machinery and equipment	7	**3,019**	2,176
Club membership		**83**	83
Goodwill		**42,209**	16,181
Deferred expenditure		**3,014**	3,014
		48,325	21,454

CURRENT ASSETS			
Trade receivables	8	**26,289**	10,535
Prepayments, deposits and other receivables		**8,414**	2,202
Short term investment		**176**	109
Stocks		**64**	—
Bank balances and cash		**19,578**	34,869
		54,521	47,715
CURRENT LIABILITIES			
Trade payables	9	**14,459**	923
Accruals and other payables		**8,765**	2,478
Tax payable		**1,092**	1,861
Obligations under a finance lease — due within one year		**—**	6
Short term bank loan		**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	10	**4,474**	—
		33,077	7,255
NET CURRENT ASSETS		**21,444**	40,460
TOTAL ASSETS LESS CURRENT LIABILITIES		**69,769**	61,914
NON-CURRENT LIABILITIES			
Balance of consideration payable for an acquisition of a subsidiary — due after one year		**1,987**	3,974
Balance of consideration payable for an acquisition of business and assets — due after one year	10	**5,205**	—
Post-employment benefits		**1,583**	1,272
Deferred taxation		**21**	21
		8,796	5,267
NET ASSETS		**60,973**	56,647
CAPITAL AND RESERVES			
Share capital		**13,083**	13,090
Reserves		**47,890**	43,557
		60,973	56,647

Notes:

1. Adoption of International Financial Reporting Standards

In the current period, the Group has adopted International Financial Reporting Standards ("IFRS") No. 3 "Business Combinations", which becomes effective for the financial year beginning on or after 31 March 2004. In previous years, goodwill is amortised on a straight-line basis over its useful life. Upon adoption of IFRS No. 3, the Group ceased amortisation on goodwill, accumulated amortisation of goodwill has been eliminated with a corresponding decrease in the cost of goodwill, and goodwill is tested annually for impairment in accordance with International Accounting Standards No. 36 (as revised in 2004).

2. 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. Save as disclosed in Note 1, the accounting policies adopted are consistent with those adopted in the preparation of the Group's annual accounts for the year ended 30 April 2004.

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

	Unaudited For the nine months ended 31 January 2005		
	Sales of merchandise *US$'000*	**Services rendered** *US$'000*	**Total** *US$'000*
REVENUE			
External revenue	**21,210**	**29,910**	**51,120**
SEGMENT RESULTS	**1,585**	**8,680**	**10,265**
Unallocated corporate expenses			**(357)**
Interest income			**1,137**
Finance costs			**(6)**
Gain on dissolution of a subsidiary			**14**
Profit before taxation			**11,053**
Taxation			**(354)**
Profit for the period			**10,699**

	Unaudited 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

By Geographical Markets

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

	Unaudited For the nine months ended 31 January	
	2005	2004
	US$'000	*US$'000*
United States	**16,272**	11,280
Europe	**9,174**	2,887
Canada	**7,026**	9,540
South Africa	**5,987**	483
Hong Kong	**4,134**	3,322
Others	**8,527**	4,356
	51,120	31,868

4. Profit from Operations

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

	Unaudited For the nine months ended 31 January	
	2005	2004
	US$'000	*US$'000*
Interest income	**(1,137)**	(1,594)
Reimbursement income from customers	**(221)**	(173)
Amortisation on goodwill	**—**	172
Depreciation of machinery and equipment	**840**	710

5. Taxation

Taxation charge comprises:

	Unaudited For the nine months ended 31 January	
	2005	2004
	US$'000	*US$'000*
Hong Kong profits tax		
— current period	**254**	—
Income tax in other jurisdictions		
— current period	**78**	299
— under/(over) provision in prior years	**22**	(92)
Deferred taxation	**—**	(1)
	354	206

6. Earnings Per Share

The calculation of the basic earnings per share for the nine months ended 31 January 2005 is based on the profit attributable to shareholders of approximately US$10,699,000 (2004: US$9,728,000) and on the weighted average number of approximately 654,446,000 (2004: 649,204,000) shares in issue during the period.

The calculation of the diluted earnings per share for the nine months ended 31 January 2005 is based on the profit attributable to shareholders of approximately US$10,699,000 (2004: US$9,728,000) and on the weighted average number of approximately 662,967,000 (2004: 662,988,000) shares issued and issuable, comprising the weighted average number of approximately 654,446,000 (2004: 649,204,000) shares in issue during the period and the weighted average number of approximately 8,521,000 (2004: 13,784,000) shares, adjusted for the dilutive effect of share options outstanding during the period.

7. Movements in Machinery and Equipment

During the nine months ended 31 January 2005, the Group spent approximately US$1,815,000 (2004: US$661,000) on acquisition of machinery and equipment.

8. 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 January 2005 (Unaudited)	At 30 April 2004 (Audited)
	US$'000	*US$'000*
0–30 days	**12,782**	7,813
31–60 days	**7,129**	1,429
61–90 days	**2,733**	337
Over 90 days	**3,963**	1,245
	26,607	10,824
Less: Allowance for doubtful debts	**(318)**	(289)
	26,289	10,535

9. Trade Payables

The aging analysis of trade payables is as follows:

	At 31 January 2005 (Unaudited) *US$'000*	At 30 April 2004 (Audited) *US$'000*
0–30 days	**5,312**	425
31–60 days	**6,919**	214
61–90 days	**1,905**	154
Over 90 days	**323**	130
	14,459	923

10. Acquisition of the Business and Assets

On 19 November 2004, the Company entered into an agreement to acquire the business and specified assets and to assume the related liabilities of Tamarind International Limited (subsequently renamed as Stirling (HK) Limited), a company incorporated in Hong Kong. The acquisition completed on 31 December 2004.

The effect of the acquisition as at the date of completion is summarised as follows:

	US$'000
Machinery and equipment	883
Trade receivables	9,749
Prepayments, deposits and other receivables	4,299
Bank balances and cash	39
Trade payables	(9,975)
Accruals and other payables	(1,659)
Post-employment benefits	(131)
Net assets acquired	3,205
Goodwill arising on acquisition	26,028
Cash consideration and expenses directly attributable to the acquisition	29,233
Consideration and expenses paid	19,554
Consideration payable within one year	4,474
Consideration payable over one year	5,205
	29,233

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Linmark continued to deliver satisfactory growth in profit after taxation for the nine months ended 31 January 2005.

During the period under review, the Group's shipment volume reached approximately US$547.9 million (equivalent to HK$4,273.6 million), an increase of approximately 13.5% as compared to the corresponding period of last year. Turnover surged approximately 60.4% to reach approximately US$51.1 million (equivalent to HK$398.6 million). The increase in turnover was attributable to the addition of new businesses and the expansion of value-added services. The Group's profit after taxation increased by approximately 10.0% to approximately US$10.7 million (equivalent to HK$83.5 million) for the nine months ended 31 January 2005.

Funding the new businesses and new overseas marketing offices, operating expenses increased by approximately US$4.2 million (equivalent to HK$32.8 million) from approximately US$20.0 million (equivalent to HK$156.0 million) to approximately US$24.2 million (equivalent to HK$188.8 million). Net profit margin as a percentage of shipment volume was approximately 2.0% which is level with that of the last corresponding period. Basic earnings per share increased from approximately 1.5 US cents (equivalent to 11.7 HK cents) to approximately 1.6 US cents (equivalent to 12.5 HK cents).

During the period under review, the Group completed the acquisition of the business and specified assets and assumption of related liabilities of Tamarind International Limited (subsequently renamed as Stirling (HK) Limited, "Tamarind") on 31 December 2004. Headquartered in Hong Kong and with offices in China and the Philippines, Tamarind is an integrated sourcing services provider principally engaged in the design and sourcing of goods ranging from apparel to fashion accessories, toys, homewares, gifts and jewellery.

The business of Tamarind encompasses a diverse customer portfolio, including a number of major customers from Europe, South Africa and Australia, thereby diversifying the Group's reliance on its North America business and providing it with the opportunity to capture the synergistic benefits of cross selling and resources sharing.

The maximum purchase price for the Tamarind acquisition of approximately US$29.1 million (equivalent to HK$226.6 million) will be settled by one initial payment in cash and three subsequent installments over a three-year period. The Group has made the initial payment of approximately US$19.4 million (equivalent to HK$151.1 million) and the three subsequent installments are subject to downward adjustments according to certain performance benchmark levels.

Tamarind operates under a trading business model which contributes a significantly higher turnover from the sales of merchandise. Therefore both the Group's trade payables and trade receivables grew significantly post acquisition. (Note 10 to the financial statements highlights the details as at the time of acquisition. As part of the sale and purchase agreement for the Tamarind acquisition, all pre-acquisition trade receivables are guaranteed to be settled within 100 days from the date of completion by the vendor.)

In addition to general business development, during the period under review, the Company repurchased 1,376,000 shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") at an average price of approximately HK$2.743 per share. The share buyback reflected management's confidence in the future development of the Group's business. Furthermore, it also enhanced earnings per share of the Company.

Financial Review

After the initial payment of approximately US$19.4 million (equivalent to HK$151.1 million) for the Tamarind acquisition, the Group remains in a strong financial position with cash and cash equivalents of approximately US$19.6 million (equivalent to HK$152.9 million) as at 31 January

2005. In addition, the Group had total banking facilities of approximately US$41.7 million (equivalent to HK$325.3 million) of which approximately US$2.3 million (equivalent to HK$17.9 million) was utilised as at 31 January 2005.

Following the Tamarind acquisition, the Group's current ratio changed from 4.7 as at 31 October 2004 to 1.7 as at 31 January 2005. The Group has a gearing ratio of less than 0.04, based on interest bearing borrowing of approximately US$2.3 million (equivalent to HK$17.9 million) and shareholders' equity of approximately US$61.0 million (equivalent to HK$475.8 million) as at 31 January 2005. There has not been any material change in the Group's borrowings since 31 January 2005.

The Group's unaudited net asset value as at 31 January 2005 was approximately US$61.0 million (equivalent to HK$475.8 million).

As at 31 January 2005, pledges of bank deposits amounted to US$5.0 million (equivalent to HK$39.0 million) to cover banking facilities in the ordinary course of business. 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 exchange risk is not significant at this time.

Prospects

The Group continues to work under the threats of interest rate hikes which have dampened consumer sentiments in the US. The Group's strategy of market and product diversification reduces such impact by expanding into Europe, South Africa and other new markets such as Australia. Their contributions are expected to provide a healthy support to both the Group's top and bottom lines.

In addition, the worldwide outsourcing trend is expected to continue as global companies are looking for more cost efficient sourcing solutions. With Linmark's one-stop services together with its wide geographical presence, the Group will continue to benefit from the outsourcing trend.

The official abolishment of global apparel quotas took place in January 2005. The Group sees continued uncertainties with the US imposing possible safeguard mechanisms on the highly utilised quota categories.

Despite the uncertainties, management strongly believes that China will become one of the most important sourcing hubs in the years to come. To prepare the best and take advantage of this uncertain situation, the Group has been deepening the sourcing penetration of the China market and partnering with Chinese authorities. To name some of its developments in China, Linmark has strengthened its sourcing network by adding three new offices in Dongguan, Guangzhou and Qingdao. The Group has also been working with the China National Textile Industry Council (CNTIC), the national federation of all textile related industries in China, and China Textile Information Center (CTIC) to develop a China Code of Conduct in Social Compliance for the textile industry in China. The Group strives to position itself as the bridge between the foreign apparel market and the textile industry in China and to grasp the business opportunities as more international players start or increase sourcing in China.

Newly acquired businesses and value-added services will be the Group's major growth drivers. Furthermore, the Group continues to seek synergistic acquisition opportunities to further enhance shareholder value.

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

DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, the Company repurchased 1,376,000 shares on the 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	Lowest	Aggregate price paid
		HK$	*HK$*	*HK$'000*
May 2004	538,000	2.950	2.500	1,465
December 2004	400,000	2.700	2.700	1,084
January 2005	438,000	2.800	2.775	1,226
	1,376,000			3,775

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

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 nine months ended 31 January 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 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.

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 (in force prior to 1 January 2005 and applicable to results announcement in respect of accounting periods commencing before 1 January 2005) throughout the period under review.

PUBLICATION OF THE RESULTS ON THE STOCK EXCHANGE'S WEBSITE

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

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 16 March 2005

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* *For identification purpose only*

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