LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 APRIL 2002

FINANCIAL HIGHLIGHTS

- Turnover decreased by 8.8% to approximately US$29.6 million
- Pre-tax profit margins fell but showed a respectable 29.0%
- Net profit and basic earnings per share decreased by 35.2% to approximately US$8.3 million and 1.67 US cents respectively
- Gearing ratio in terms of interest bearing borrowings to shareholder's fund was at 0.5% only
- Final dividend per share is proposed at 3.0 HK cents

AUDITED RESULTS

The board of directors ("Directors") of Linmark Group Limited ("Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 30 April 2002 with comparative figures for the previous corresponding year are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statements

	Notes	**2002** ***US$'000***	2001 *US$'000*
Turnover	2	**29,648**	32,491
Cost of sales		**(473)**	(1,352)
Gross profit		**29,175**	31,139
Other operating income		**1,214**	1,349
Administrative expenses		**(21,821)**	(20,042)
Profit from operations		**8,568**	12,446
Interest on obligations under a finance lease		**(2)**	—
Gain on dissolution/disposal of a subsidiary		**37**	911
Profit before taxation		**8,603**	13,357
Taxation	3	**(261)**	(490)
Profit for the year		**8,342**	12,867
Dividends			
— Interim and special dividends, paid		**10,800**	8,000
— Final dividend, proposed		**2,490**	—
		13,290	8,000
Earnings per share *(US cents)*			
Basic	4	**1.67**	2.58

Consolidated Balance Sheets

	Notes	**30 April 2002** ***US$'000***	30 April 2001 *US$'000*
NON-CURRENT ASSETS			
Machinery and equipment		**1,358**	891
Other asset		**119**	119
Deferred expenditure		**3,014**	—
		4,491	1,010
CURRENT ASSETS			
Trade receivables	5	**4,758**	8,124
Prepayments, deposits and other receivables		**2,187**	1,641
Amount due from the immediate holding company		**—**	1,957
Amounts due from fellow subsidiaries		**—**	3,523
Bank balances and cash		**2,122**	1,319
		9,067	16,564
CURRENT LIABILITIES			
Trade payables	6	**100**	460
Accruals and other payables		**1,484**	2,111
Amount due to a fellow subsidiary		**—**	182
Obligations under a finance lease — due within one year		**22**	—
Tax payable		**873**	1,067
		2,479	3,820
NET CURRENT ASSETS		**6,588**	12,744
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,079**	13,754
NON-CURRENT LIABILITIES			
Obligations under a finance lease — due after one year		**28**	—
Provision for employee retirement benefits		**1,035**	924
Deferred taxation		**30**	32
		1,093	956
		9,986	12,798
CAPITAL AND RESERVES			
Share capital		**40**	—
Reserves		**9,946**	12,798
		9,986	12,798

Notes:

1. Group reorganisation, operations and basis of presentation

The Company was incorporated in Bermuda on 25 January 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing business and the business of provision of supply chain management solutions.

Pursuant to a group reorganisation ("Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Company became the holding company of the companies comprising the Group on 22 April 2002. The Group resulting from the Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the financial statements of the Group 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 shares of the Company have been listed on the Stock Exchange since 10 May 2002.

2. Segmental information

By principal activity

For management purposes, the Group is currently organised into two operating activities — sales of garment and services rendered. These divisions are the basis on which the Group reports its primary segmental information.

Principal activities are as follows:

Services rendered — commission income derived from the procurement agency business

Sales of garment — trading of garment

Segmental information about these businesses is presented below:

Year ended 30 April 2002	**Sales of garment** ***US$'000***	**Services rendered** ***US$'000***	**Elimination** ***US$'000***	**Total** ***US$'000***
REVENUE				
External revenue	**513**	**29,135**	**—**	**29,648**
CONTRIBUTION TO PROFIT FROM OPERATIONS	**41**	**8,527**	**—**	**8,568**
Finance costs				**(2)**
Gain on dissolution of a subsidiary				**37**
Profit before taxation				**8,603**
Taxation				**(261)**
Profit for the year				**8,342**

Year ended 30 April 2001	Sales of garment *US$'000*	Services rendered *US$'000*	Elimination *US$'000*	Total *US$'000*
REVENUE				
External revenue	1,625	30,866	—	32,491
CONTRIBUTION TO PROFIT FROM OPERATIONS	273	12,173	—	12,446
Gain on disposal of a subsidiary				911
Profit before taxation				13,357
Taxation				(490)
Profit for the year				12,867

By geographical markets

The following table provides an analysis of the Group's sales by geographical markets, in respect of the customer base:

	Turnover **2002** ***US$'000***	2001 *US$'000*
Geographical markets		
Canada	**11,089**	14,073
United States	**8,378**	8,608
Europe	**2,089**	2,603
Hong Kong	**2,511**	1,848
Others	**5,581**	5,359
	29,648	32,491

3. Taxation

The charge comprises:

	2002 ***US$'000***	2001 *US$'000*
Hong Kong Profits Tax		
— current year	**—**	122
Income tax in other jurisdictions		
— current year	**287**	679
— overprovision in prior year	**(24)**	(330)
Deferred taxation	**(2)**	19
	261	490

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the year.

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

4. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately US$8,342,000 (2001: US$12,867,000) 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.

5. Trade receivables

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

	2002 ***US$'000***	2001 *US$'000*
0 – 30 days	**2,873**	3,092
31 – 60 days	**1,356**	3,255
61 – 90 days	**319**	1,333
Over 90 days	**1,025**	1,461
	5,573	9,141
Less: Allowance for doubtful debts	**(815)**	(1,017)
	4,758	8,124

6. Trade payables

The aged analysis of trade payables is as follows:

	2002 ***US$'000***	2001 *US$'000*
0 – 30 days	**—**	258
31 – 60 days	**—**	145
61 – 90 days	**—**	20
Over 90 days	**100**	37
	100	460

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The financial year ended 30 April 2002 was a challenging yet rewarding year for the Group. Globally, many economic uncertainties remained, which inevitably hindered growth in many parts of the world. This has been reflected in the sluggish demand in the U.S. and in other major markets.

For the year under review, the Group recorded a turnover of approximately US$29,648,000 (HK$231,254,000). Profit from operations was approximately US$8,568,000 (HK$66,830,000) whilst net profit was approximately US$8,342,000 (HK$65,068,000). Basic earnings per share stood at 1.67 US cents (13.03 HK cents).

For the year, the Group reported shipment volume of approximately US$489,378,000, 1.9% higher than that of last year. The modest increase in shipment volume was attributable to weakened orders from the North American markets and voluntary price cuts by garment factories. Turnover, comprised commission income and sales of garment sourced by the Group, was recorded at approximately US$29,648,000, 8.8% lower than the previous year. The commission income for the year dropped by 5.6%, despite a slight increase in shipment volume, from approximately US$30,866,000 to approximately US$29,135,000. This was partly attributable to the lower than usual commission fee received from a new customer, Warnaco Inc. ("Warnaco"), during the ramp-up transitional period between February and April 2002 due to the fact that part of the sourcing work had already been done by Warnaco itself. Apart from this, turnover was also negatively affected by a major reduction in sales of garment by approximately US$1,112,000 from approximately US$1,625,000 to approximately US$513,000.

To a certain extent, the 11 September attack of last year exacerbated the conditions prevailing in the North American markets as customers started to defer orders. However, such impact was only short-lived as inventories were run down. The U.S. government's concerted steps to slash interest rates also helped to restore confidence. As a result, orders began to pick up towards the end of the financial year.

With the introduction of new customers, the Group was able to reduce its reliance on the Canadian market from 43.3% to 37.4%. The management believes that with the Group's aggressive strategy of diversification through the addition of new customers, the reliance on the Canadian market will be further reduced in the future.

Against this backdrop, the Group has continued to make significant progress and has initiated a number of strategic moves to generate value. To enhance margins and develop more revenue sources for the Group, we introduced a number of new services including social compliance monitoring, market intelligence and product development, and packaging and trim services to add value to our existing supply chain services. In addition, the Group's quality assurance and social compliance divisions have undergone significant expansion. These services, available also on a modular basis, are designed to carve out a greater market niche, helping us to maintain a leading industry position.

Notwithstanding the prevailing conditions, the Group was successful with several important initiatives. In February 2002, the Group started to source goods for Warnaco, a leading apparel company for brands including Calvin Klein® Jeans, Calvin Klein® Kids, Chaps by Ralph Lauren® and Speedo® pursuant to a three-year exclusive sourcing agreement with the Group. And, in October 2001, the Group was appointed sourcing agent of Virginware, a prominent underwear and night wear brand in the U.K.. These strategic gains have not only added to the Group's credibility, but also served as an important catalyst in driving new business. Contributions from Warnaco for the financial year was only partial. As Warnaco is already meeting the aggressive shipment plan and therefore, we look forward to realizing the full contribution from this new client in the coming year.

Our progress for the year was also marked by our successful diversification into the PRC market as we began sourcing footwear for a major distributor of consumer products, Midway Enterprises (Guang Zhou) Ltd., a sister company of the Group.

To bring our customers the highest levels of convenience and ease, we commenced the development of the LOGON system, a web-based Critical Path Management (CPM) system, in February 2001. The LOGON system links up the Group, its customers and its vendors, permits a more integrated network by automating the order tracking processes, ensuring timely response to customer requirements. Initial implementation of the system was completed on schedule in June 2002 and further development and integration have already begun.

Financial Review

Liquidity and Financial Resources

As at 30 April 2002, the Group's cash on hand amounted to approximately US$2,122,000 (2001: US$1,319,000). As at year end, banking facilities amounting to approximately US$1,026,000 (HK$8,000,000) were available. The Group has continued to operate under a debt-free model with no outstanding net debt as at year end except a hire purchase loan for a motor vehicle at a net book value of approximately US$60,000. Current ratio was maintained at a strong level of 3.7. Net asset value as at year end date was approximately US$9,986,000. As at 30 April 2002, none of the Group's assets were subject to any charge.

Gearing ratio in terms of interest bearing borrowings to shareholder's fund was at 0.5%.

Capital Structure

The Group's capital solely comprised shareholder's equity.

Risk of Currency Fluctuation

Majority of the Group's transactions were mainly denominated in US dollars and Hong Kong dollars. Since Hong Kong dollar is pegged to US dollar, we consider the exchange risk is not significant.

Employees

As at 30 April 2002, the Group had 639 employees. The total staff costs for the financial year amounted to US$12,771,000 (2001: US$11,199,000).

Under the Group's remuneration policy, staff are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates. The Group has established a performance-based share option scheme to retain and motivate staff.

A "Senior Management Development Scheme" is also in place to prepare talented managers to assume director level responsibilities . In addition, regular on-job training programs are also designed to constantly improve the skills and levels of knowledge of staff.

Use of Proceeds of New Issue

The shares of the Company have been listed on the Main Board of the Stock Exchange since 10 May 2002. Information related to the Group's future plans was included in the prospectus of the Company dated 30 April 2002.

Up to 29 July 2002, the net proceeds of share offer to which the Company was entitled, after deduction of related expenses, of approximately HK$226.5 million had not been utilized and had been placed into fixed bank deposit. Such moneys will be used in accordance with the plans of the Group as set out in the prospectus.

Prospects

FY2003 is a year of opportunity for the Company. We entered the new financial year with our successful listing on the Main Board of the Stock Exchange on 10 May 2002 — an extension of our bold mission *delivering the difference*.

Pushing forward, we have identified the following growth strategies:

— diversify market exposure with a focus on further penetrating the European and Asian markets in order to capitalize on faster growing economies

— increase contribution from hardgoods where orders are relatively inelastic to economic conditions and enjoy higher margins

— allocate more resources to the newly-established value-added services to broaden revenue stream

— review and restructure sourcing network whilst increasing network coverage in the PRC which is expected to become the most important production base

The PRC's entry to WTO is expected to have a two-fold impact on the supply chain management industry. Firstly, gradual removal of quota systems will reinforce the PRC's position as a preferred manufacturing base. Secondly, rising domestic demand will stimulate imports to the PRC, driving demand for efficient supply chain services along with it. The Group will seek to capitalize on these opportunities by vigorously promoting our one-stop supply chain services to target customers in the PRC.

On the operations front, the management is committed to improving the sourcing network. The opening of our Shenzhen office in May 2002 set in motion a series of network expansion plans in the PRC, enabling us to stay in close proximity to factories of vendors. Meanwhile, expansion of the Tianjin and Shanghai offices is expected to continue.

Furthermore, the Group is seeking accelerated growth by considering beneficial mergers and acquisitions. Creation of additional synergies will be of top priority and the management remains cautiously optimistic with regard to progress in this respect.

Meanwhile, the trend toward increased outsourcing supply chain services will create a conducive background for the Group's expansion. The management is committed to building a powerful customer-driven model and is determined to deliver the best shareholders returns.

DIVIDENDS

Interim and special dividends declared and paid during the financial year amounted to US$10,800,000.

The Directors recommend the payment of a final dividend of 3.0 HK cents per share in respect of the year ended 30 April 2002 payable on or about 27 September 2002 to shareholders whose names appear on the register of members of the Company on 13 September 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 September 2002 to 13 September 2002, 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 registrar of the Company, Standard Registrars Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4.00 p.m. on 6 September 2002.

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 year ended 30 April 2002.

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. The primary duties of the audit committee are to review the Company's annual report and accounts and half-year reports and to provide advice and comments thereon to the Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises the two independent non-executive directors, namely Mr. WANG Arthur Minshiang and Mr. WONG Wai Ming.

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 Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited since the listing date on 10 May 2002.

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 Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website in due course.

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 29 July 2002

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* *For identification purpose only*