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 2006

HIGHLIGHTS

- Shipment value amounted to approximately US$213.3 million (equivalent to HK$1,663.7 million), an increase of approximately 21.9% as compared to approximately US$175.0 million (equivalent to HK$1,365.0 million) for the corresponding period of last year.
- Turnover grew by approximately 105.5% to approximately US$83.9 million (equivalent to HK$654.4 million) as compared to the corresponding period of last year.
- Profit for the period amounted to approximately US$1.1 million (equivalent to HK$8.6 million), as compared to approximately US$2.1 million (equivalent to HK$16.4 million) for the corresponding period of last year.

UNAUDITED RESULTS

The board ("Board") of directors ("Directors") of Linmark Group Limited ("Company" or "Linmark") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months ended 31 July 2006, together with comparative figures for the previous corresponding period, as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

		For the three months ended 31 July	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	***US$'000***	*US$'000*
Revenue	2	**83,909**	40,828
Cost of sales		**(71,897)**	(29,131)
Gross profit		**12,012**	11,697
Other income		**1,043**	551
General and administrative expenses		**(11,269)**	(9,810)

* *For identification purpose only*

	Note		
Operating profit	*3*	**1,786**	2,438
Finance costs		**(245)**	(30)
Share of loss of a joint venture		**(19)**	(14)
Profit before income tax		**1,522**	2,394
Income tax expense	*4*	**(469)**	(313)
Profit for the period		**1,053**	2,081
Attributable to:			
Equity holders of the Company		**1,220**	2,081
Minority interest		**(167)**	–
		1,053	2,081
Earnings per share *(US cents)*	*5*		
– Basic		**0.2**	0.3
– Diluted		**0.2**	0.3

Consolidated Balance Sheet

	Note	**At 31 July 2006 (Unaudited)** ***US$'000***	At 30 April 2006 (Audited) *US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*6*	**2,912**	3,236
Intangible assets		**114,581**	113,415
Other asset		**83**	83
Investment in a joint venture		**102**	121
		117,678	116,855
CURRENT ASSETS			
Inventories		**14,655**	13,540
Trade receivables	*7*	**35,110**	34,522
Prepayments, deposits and other receivables		**6,183**	6,746
Amount due from related companies		**94**	193
Cash and cash equivalents		**31,918**	37,609
		87,960	92,610
CURRENT LIABILITIES			
Trade payables	*8*	**42,384**	44,589
Accruals and other payables		**15,334**	17,173
Short-term bank loans		**8,850**	8,850
Balance of consideration payable for acquisitions of subsidiaries/businesses and assets – due within one year		**12,286**	12,286
Current income tax liabilities		**3,251**	2,901
		82,105	85,799

NET CURRENT ASSETS	**5,855**	6,811
TOTAL ASSETS LESS CURRENT LIABILITIES	**123,533**	123,666
NON-CURRENT LIABILITIES		
Balance of consideration payable for acquisitions of subsidiaries/businesses and assets – due after one year	**14,597**	17,073
Post-employment benefits	**1,412**	1,691
Deferred income tax liabilities	**134**	125
	16,143	18,889
NET ASSETS	**107,390**	104,777
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**13,337**	13,337
Reserves	**64,073**	61,907
	77,410	75,244
Minority interest	**29,980**	29,533
TOTAL EQUITY	**107,390**	104,777

Notes:

1. **Basis of preparation and principal accounting policies**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial liabilities and the principal accounting policies applied in the preparation of these consolidated financial information are consistent with those applied in the preparation of annual financial statements as at and for the year ended 30 April 2006.

2. **Segmental information**

An analysis of the Group's segmental information for the three months ended 31 July 2006 and the previous corresponding period by business and geographical segments is as follows:

Primary reporting format – business segments

At 31 July 2006, the Group is organised on a worldwide basis into two main business segments: (i) sales of merchandise (garment, labels and consumer electronic products); and (ii) provision of services (garment-related procurement services, value-added services relating to the procurement agency business and project-based services).

The segment information for the three months ended 31 July 2006 is as follows:

	Unaudited For the three months ended 31 July 2006		
	Sales of merchandise *US$'000*	**Provision of services** *US$'000*	**Total** *US$'000*
REVENUE			
External revenue	**77,151**	**6,758**	**83,909**
SEGMENT RESULTS	**1,483**	**197**	**1,680**
Interest income			**231**
Finance costs			**(245)**
Share of loss of a joint venture			**(19)**
Unallocated corporate expenses			**(125)**
Profit before income tax			**1,522**
Income tax expense			**(469)**
Profit for the period			**1,053**

	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
Finance costs			(30)
Share of loss of a joint venture			(14)
Unallocated corporate expenses			(134)
Profit before income tax			2,394
Income tax expense			(313)
Profit for the period			2,081

Secondary reporting format – geographical segments

The Group's two business segments operate in five main geographical locations. The following table provides an analysis of the Group's revenue by geographical locations of customers.

	For the three months ended 31 July	
	2006 (Unaudited) *US$'000*	2005 (Unaudited) *US$'000*
Europe	**55,796**	16,206
Australia	**8,553**	7,720
Africa	**7,607**	6,054
North America	**5,772**	5,395
Hong Kong	**2,284**	2,685
Others	**3,897**	2,768
	83,909	40,828

3. Operating profit

Operating profit has been arrived at after (crediting)/charging:

	For the three months ended 31 July	
	2006	2005
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Interest income	**(231)**	(193)
Reimbursement income from customers	**(28)**	(44)
Depreciation of property, plant and equipment	**338**	311
Amortisation of intangible assets *(Note)*	**251**	–

Note: Amortisation of expenses incurred for renewing a buying agency agreement.

4. Income tax expense

	For the three months ended 31 July	
	2006	2005
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Current income tax		
– Hong Kong profits tax	**475**	248
– overseas taxation	**(6)**	67
Deferred income tax	**–**	(2)
	469	313

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period.

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

5. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 July 2006 was based on the profit attributable to equity holders of the Company of approximately US$1,220,000 (2005: US$2,081,000) and on the weighted average number of approximately 666,845,000 (2005: 655,634,000) shares in issue during the period under review.

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the three months ended 31 July 2006.

The calculation of the diluted earnings per share for the three months ended 31 July 2005 was based on the profit attributable to equity holders of approximately US$2,081,000 and on the weighted average number of approximately 660,890,000 shares issued and issuable, comprising the weighted average number of approximately 655,634,000 shares in issue during the financial period and the weighted average number of approximately 5,256,000 shares as adjusted for the dilutive effect of share options outstanding during the period under review.

6. Additions in property, plant and equipment

During the three months ended 31 July 2006, the Group spent approximately US$53,000 (2005: US$364,000) 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 2006 (Unaudited) *US$'000*	At 30 April 2006 (Audited) *US$'000*
0 – 30 days	**21,680**	22,687
31 – 60 days	**7,665**	8,116
61 – 90 days	**1,844**	2,205
Over 90 days *(Notes (i) and (ii))*	**10,071**	7,091
	41,260	40,099
Less: Provision for impairment of trade receivables	**(6,150)**	(5,577)
	35,110	34,522

Notes:

(i) As at the date of this announcement, approximately US$1.3 million (as at 30 April 2006: US$1.1 million) of this balance has subsequently been settled since 31 July 2006.

(ii) Approximately US$3.0 million (as at 30 April 2006: US$1.6 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 2006 (Unaudited) *US$'000*	At 30 April 2006 (Audited) *US$'000*
0 – 30 days	**19,292**	20,002
31 – 60 days	**17,551**	15,485
61 – 90 days	**817**	5,093
Over 90 days	**4,724**	4,009
	42,384	44,589

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

For the three months ended 31 July 2006, shipment value amounted to approximately US$213.3 million (equivalent to HK$1,663.7 million), an increase of approximately 21.9% as compared to approximately US$175.0 million (equivalent to HK$1,365.0 million) recorded in the corresponding period of last year. Turnover increased by approximately 105.5% to approximately US$83.9 million (equivalent to HK$654.4 million). The significant increase was principally attributed to the Group's newly acquired businesses, which were accounted for on the basis of shipment value during the period under review.

The Group's profit for the period under review amounted to approximately US$1.1 million (equivalent to HK$8.6 million) as compared to approximately US$2.1 million (equivalent to HK$16.4 million) for the corresponding period of last year.

The consumer electronic division continues to be a challenge and under-achievement is expected for the current financial year. Increasing material costs and price deflation of traditional electronic products will continue to have an adverse impact on the division's profitability.

Net profit after tax as a percentage of shipment value declined to approximately 0.49% from 1.19%. This decline was mainly attributable to costs associated with the Group's restructuring as well as under-achievement of margins in the consumer electronic division. Excluding the approximately US$0.3 million (equivalent to HK$2.3 million) restructuring expenses, the adjusted net profit after tax as a percentage of shipment value was approximately 0.66%.

Operating expenses, including finance costs, increased by approximately 17.0% to approximately US$11.5 million (equivalent to HK$89.7 million). The increase is principally attributable to spending associated with the newly acquired businesses, costs associated with the Group's restructuring amounting to approximately US$0.3 million (equivalent to HK$2.3 million) and a provision for doubtful debts of approximately US$0.6 million (equivalent to HK$4.7 million).

Segmental Analysis

The acquisitions undertaken by the Group in the past few years have shifted the Group's business model from predominately commission-based to shipment value-based. Hence, shipment value, in addition to turnover, is a more accurate indicator of the Group's performance. The table below shows the shipment value to different markets during the period under review as compared to the previous corresponding period:

	Shipment value For the three months ended 31 July	
	2006	2005
	US$' million	*US$' million*
North America	**74.0**	102.6
Europe	**71.5**	25.1
Others	**67.8**	47.3
Total	**213.3**	175.0

During the period under review, shipment to Europe surged approximately 184.9% from approximately US$25.1 million (equivalent to HK$195.8 million) to approximately US$71.5 million (equivalent to HK$557.7 million). The growth was largely the result of increased revenue following the acquisition of 60% interest in Dowry Peacock Group Limited ("Dowry Peacock"), a UK-based consumer electronic products brand owner and supply chain management company, which was completed in October 2005.

Shipment to North America decreased by approximately 27.9% from approximately US$102.6 million (equivalent to HK$800.3 million) to approximately US$74.0 million (equivalent to HK$577.2 million). This decrease was mainly due to the departure of a key US-based customer who decided to consolidate its retail and sourcing functions in Asia during last financial year. Nevertheless, North America remains as the Group's largest market, contributing approximately 34.7% of the Group's total shipment.

Shipment grouped under "Others", mainly represents shipment to the southern hemisphere, increased from approximately US$47.3 million (equivalent to HK$368.9 million) to approximately US$67.8 million (equivalent to HK$528.8 million) on the back of strong orders from customers in South Africa.

Financial Review

The Group's financial position remains healthy with cash and cash equivalents of approximately US$31.9 million (equivalent to HK$248.8 million) as at 31 July 2006. In addition, the Group has total banking facilities of approximately US$60.7 million (equivalent to HK$473.5 million) including borrowing facilities of approximately US$9.1 million (equivalent to HK$71.0 million).

The Group's current ratio was 1.1 and gearing ratio was low at 0.1, based on interest-bearing borrowing of approximately US$8.9 million (equivalent to HK$69.4 million) and total equity of approximately US$107.4 million (equivalent to HK$837.7 million) as at 31 July 2006. There has not been any material change in the Group's borrowings since 31 July 2006.

Trade receivables increased slightly from approximately US$34.5 million (equivalent to HK$269.1 million) as at 30 April 2006 to approximately US$35.1 million (equivalent to HK$273.8 million) as at 31 July 2006. As at 31 July 2006, trade receivables aged over 90 days were approximately US$10.1 million (equivalent to HK$78.8 million) which are being carefully monitored by management.

The Group's net asset value as at 31 July 2006 was approximately US$107.4 million (equivalent to HK$837.7 million).

As at 31 July 2006, pledges of bank deposits amounted to approximately US$7.0 million (equivalent to HK$54.6 million) and there was a fixed and floating debenture over the assets of Dowry Peacock to cover banking facilities in the ordinary course of business. The Group had no material contingent liability as at 31 July 2006 and there has been no material change since then.

The majority of the Group's transactions during the period under review were denominated in US dollars, Hong Kong dollars and Sterling. During the period under review, foreign exchange risks from Sterling transactions were managed by the Group's treasury with the use of foreign exchange forward contracts. The Group did not hold any outstanding foreign exchange forward contracts as at 31 July 2006.

Prospects

The Group has reorganised its operational functions into four strategic business units to facilitate cross selling among the various product divisions. A focus on the integration of all the business units will culminate during the second quarter of the current financial year.

In addition, the Group has reviewed its structure and consolidated its sourcing office network and closed non-performing locations. The Group's Shanghai offices are now located within a single building and the merging of the Hong Kong offices will be completed during the second quarter of the current financial year. Such consolidation has allowed the Group to achieve more focused allocation of resources for enhancing operational efficiencies and lowering operating costs.

Dowry Peacock, whilst adding to the Group's turnover and diversification in Europe, continues to be difficult. The consumer electronic sector in Europe is suffering from significant price deflation and, whilst the Group's customer base and geographic reach across the region has broadened, rising material costs and declining prices of electronic products continued to pose pressure on the Group's margins in the UK consumer electronic market. The Group will continue to explore ways to improve profitability, including expanding its customers base, negotiating with suppliers for better pricing and seeking to develop more exclusive ranges of products for distribution.

Although management sees initial consolidation and the business remains to be a challenge, it is confident that the Group will benefit in the long run from taking actions in restructuring its operations during the current financial year.

DIVIDEND

The Directors do not recommend the payment of dividend for the three months ended 31 July 2006 (2005: Nil).

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.

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 2006. 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. Peter Loris SOLOMON (Chief Executive Officer), Mr. FU Jin Ming, Patrick, Mr. WONG Wai Ming and Mr. KHOO Kim Cheng 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 2006

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Hunghom, Kowloon, Hong Kong

Please also refer to the published version of this announcement in The Standard.