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LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

DISCLOSEABLE TRANSACTION

On 11 November 2003, the Company entered into the Sale and Purchase Agreement with the Vendors and ISO for the sale and purchase of the entire issued share capital of ISO.

The Consideration under the Sale and Purchase Agreement is HK\$155,000,000 (subject to downward adjustment), representing approximately 46.6 per cent of the net tangible assets value of the Group as at 30 April 2003, being the date to which the latest published audited financial statements of the Group were made up. The Sale and Purchase Agreement therefore constitutes a discloseable transaction of the Company under the Listing Rules.

ISO is principally engaged in the business of supply chain management, including consultancy, design, sourcing, procurement, quality inspection and fulfillment, with specialisation in home lifestyle entertainment products and consumer electronic products. The Directors (including the independent non-executive Directors) consider that the acquisition of ISO will be beneficial to the development of the Group and will broaden its customers base and expand its products diversity. The Consideration will be financed by internal resources of the Company comprising approximately US\$18.2 million (equivalent to approximately HK\$142.0 million) from the Proceeds and the remaining amount from the general working capital of the Company.

ISO had granted interest-free unsecured loans to Mr. Pettitt and Digitech respectively, the outstanding aggregate balance of which amounted to approximately HK\$8.8 million as at 7 November 2003. On 10 November 2003, ISO entered into the Supplemental Loan Agreements with Mr. Pettitt and Digitech, pursuant to which the outstanding loans will be repayable in full on or before 30 April 2004 and no further loans will be advanced to Mr. Pettitt and Digitech as from 7 November 2003. Pursuant to the Sale and Purchase Agreement, Mr. Pettitt shall be appointed as the president of ISO commencing from 14 November 2003.

The Directors (including the independent non-executive Directors) consider that the Sale and Purchase Agreement is in the ordinary and usual course of business of the Group, and that the terms have been negotiated on an arm's length basis and on normal commercial terms which are fair and reasonable so far as the shareholders of the Company are concerned.

A circular containing details of the Sale and Purchase Agreement and the Supplemental Loan Agreements will be despatched to the shareholders of the Company as soon as practicable.

THE SALE AND PURCHASE AGREEMENT

- Date : 11 November 2003
- Parties : 1. Mr. Pettitt and Alignment as Vendors;
2. ISO; and
3. the Company.
- Asset purchased : 100 ordinary shares of HK\$1.00 each in the share capital of ISO, representing its entire issued share capital.
- Consideration : The Consideration in the sum of HK\$155,000,000 (subject to downward adjustment as described below) shall be payable by the Purchaser in the following manner:

1. Initial Payment:

The sum of HK\$108,500,000 shall be payable on the Completion Date.

The Initial Payment is adjustable on a dollar-for-dollar basis in the event that the net tangible assets value of ISO as at 30 April 2003 and as at the Completion Date is less than HK\$20,500,000 and the unrestricted balance of cash and cash equivalents of ISO as at the Completion Date is less than HK\$11,000,000.

2. Deferred Payments:

(i) The sum of HK\$15,500,000 shall be payable within 15 Business Days of receipt of the audited financial statements of ISO for the year ending 30 April 2004 by the Vendors and the Purchaser;

(ii) The sum of HK\$15,500,000 shall be payable within 15 Business Days of receipt of the audited financial statements of ISO for the year ending 30 April 2005 by the Vendors and the Purchaser; and

(iii) The sum of HK\$15,500,000 shall be payable within 15 Business Days of receipt of the audited financial statements of ISO for the year ending 30 April 2006 by the Vendors and the Purchaser.

The Deferred Payments are downward adjustable on the basis of the consolidated net profits after tax of ISO for each of the relevant financial years. The Vendors shall repay the Purchaser an amount based on the shortfall if the referenced amounts for each of the year ending 30 April 2004, 2005 and 2006 falls below HK\$22,040,000, HK\$26,600,000 or HK\$31,350,000 respectively.

The Consideration shall be paid by the Purchaser to Alignment.

The Consideration is arrived at after arms' length negotiations between the parties based on, among other things, the audited financial statements of ISO as at 31 March 2002, 30 April 2003 and 31 August 2003. The net assets value of ISO as stated in these financial statements were HK\$5,297,321, HK\$21,142,610 and HK\$25,355,290 respectively. The net profits before tax of ISO for the year ended 31 March 2002 were HK\$6,392,204 and for the 13 months ended 30 April 2003 were HK\$18,685,984. The net profits after tax of ISO for the year ended 31 March 2002 were HK\$5,406,009 and for the 13 months ended 30 April 2003 were HK\$15,845,289. The Consideration will be financed by internal resources of the Company comprising approximately US\$18.2 million (equivalent to approximately HK\$142.0 million) from the Proceeds and the remaining amount from the general working capital of the Company.

Based on the 12-month pro rata figure per audited financial statements of ISO for the 13 months ended 30 April 2003, this represents a P/E ratio of 10.6. Based on the figure per unaudited management accounts of ISO for the 12 months ended 31 March 2003, this represents a P/E ratio of 10.6.

Based on the audited financial statements of the Company for the year ended 30 April 2003, the closing price of HK\$3.3 per share and the total number of issued shares of the Company of 650,624,000 as at the date hereof, this represents a P/E ratio of 22.3.

The minimum consideration under the Sale and Purchase Agreement shall be the net tangible assets value of ISO as at the Completion Date as stated in the statements to be prepared and submitted to ISO by an accounting firm (as agreed between the parties) as soon as reasonably practicable after the Completion.

- Conditions Precedent : The obligation of the Purchaser to complete the Sale and Purchase Agreement is conditional upon, among other things,:
- (1) all necessary consents, approvals, actions, filings, notices necessary for the parties to perform their respective obligations under the Sale and Purchase Agreement and to consummate the transactions contemplated thereby being obtained, made or given (as the case may be) and shall be in full force and effect;
 - (2) key employees and consultant (including Mr. Pettitt) as specified in the Sale and Purchase Agreement having entered into employment or consulting agreements with ISO;
 - (3) consents, approvals, notices and/or waivers from third parties as specified in the Sale and Purchase Agreement in relation to business transactions with ISO having been obtained;
 - (4) satisfactory due diligence investigation on customers of ISO as specified in the Sale and Purchase Agreement (“Due Diligence”) having been completed by the Group; and

- (5) no material adverse change in, among other things, the business, financial condition, operations, customer or supplier relationships, sales or earnings or future prospect of ISO between 30 April 2003 and the Completion Date.

The Sale and Purchase Agreement shall lapse and terminate in the event that the conditions to Completion as set out in the Sale and Purchase Agreement (including the above conditions) are not satisfied (or waived in accordance with the provisions of the Sale and Purchase Agreement) by the Long Stop Date.

Completion : Subject to satisfaction of the conditions set out in the Sale and Purchase Agreement, Completion shall take place on a date which shall not be after the Long Stop Date.

CHANGE OF FINANCIAL YEAR END DATE OF ISO

The Vendors agreed to change the financial year end date of ISO from 31 March to 30 April in order to match the financial year end date of the Company. The first audited financial statements issued after the change of accounting date were for the 13 months ended 30 April 2003. The audited interim accounts for the period ended 31 August 2003 were issued for the special purpose of the Sale and Purchase Agreement.

FINANCE OF THE CONSIDERATION

It is disclosed in the prospectus of the Company dated 30 April 2002 (“Prospectus”) that the Group intends to use the Proceeds as follows:

- (1) approximately US\$9.0 million (equivalent to approximately HK\$70.2 million) will be used for marketing and business development including new clients and business acquisitions;
- (2) approximately US\$2.5 million (equivalent to approximately HK\$19.5 million) will be used to enhance LOGON system;
- (3) approximately US\$1.5 million (equivalent to approximately HK\$11.7 million) will be used to enhance its sourcing network and to establish additional sourcing offices in developing countries such as the PRC and countries in the Indian sub-continent;
- (4) approximately US\$2.0 million (equivalent to approximately HK\$15.6 million) will be used to finance the expansion of the Group’s sourcing and related supply chain management business to retailers, particularly in the PRC; and
- (5) the remaining balance of approximately US\$9.2 million (equivalent to approximately HK\$71.8 million) will be used for future business development and general working capital of the Group.

As at 30 April 2003, a total of approximately US\$1.5 million (equivalent to HK\$11.7 million) of the Proceeds had been used for information technology investment (LOGON system), and setting up of sourcing offices in China.

The Consideration will be financed by internal resources of the Company comprising approximately US\$18.2 million (equivalent to approximately HK\$142.0 million) from the Proceeds as described in items (1) and (5) and the remaining amount from the general working capital of the Company.

The Company intends to use the remaining amount of the Proceeds in accordance with the Prospectus as set out above.

SUPPLEMENTAL LOAN AGREEMENTS

ISO entered into an agreement with each of Mr. Pettitt and Digitech in December 2001 and April 2002 respectively for granting interest-free unsecured loans to Mr. Pettitt and Digitech respectively repayable on or before March 2008. The outstanding amount respectively owed by Mr. Pettitt and Digitech amounted to approximately HK\$5.0 million and HK\$3.8 million as at 7 November 2003.

On 10 November 2003, ISO entered into the Supplemental Loan Agreements with Mr. Pettitt and Digitech, pursuant to which the parties agree that the outstanding unsecured loans shall be repayable interest-free in full on or before 30 April 2004 and that no further loans will be advanced to Mr. Pettitt and Digitech as from 7 November 2003. The Supplemental Loan Agreements were entered into by ISO, Mr. Pettitt and Digitech for the purpose of varying the repayment terms of the outstanding loans and agreeing that no further loans shall be advanced by ISO to Mr. Pettitt and Digitech. The Directors (including the independent non-executive Directors) consider that the terms of the Supplemental Loan Agreements are fair and reasonable so far as the shareholders of the Company are concerned.

REASONS FOR THE SALE AND PURCHASE AGREEMENT AND THE SUPPLEMENTAL LOAN AGREEMENTS

The Group is a one-stop global sourcing and supply chain management solutions provider. ISO is involved in the business of supply chain management, including consultancy, design, sourcing, procurement, quality inspection and fulfillment, with specialisation in home lifestyle entertainment products and consumer electronic products. The Group is desirous of expanding its business of sourcing and supply chain management to cover home lifestyle entertainment products and consumer electronic products. The Directors (including the independent non-executive Directors) consider that the acquisition of ISO will be beneficial to the development of the Group and will broaden its customers base and expand its products diversity.

The terms of the Sale and Purchase Agreement have been negotiated on an arms' length basis and on normal commercial terms. The Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the shareholders of the Company are concerned.

The Directors (including the independent non-executive Directors) consider that the terms of the Supplemental Loan Agreements are fair and reasonable so far as the shareholders of the Company are concerned.

DISCLOSEABLE TRANSACTION

As of 30 April 2003, the net tangible assets value of the Group amounted to approximately US\$42,637,000 (equivalent to approximately HK\$332,568,000) (as per the latest published audited financial statements of the Group). Accordingly, the Consideration represents approximately 46.6

per cent of the net tangible assets value of the Group as at 30 April 2003, being the date to which the latest published audited financial statements of the Group were made up. The Sale and Purchase Agreement therefore constitutes a discloseable transaction of the Company under the Listing Rules.

Mr. Pettitt, who is the chairman of ISO, assumes certain duties as a director and president of ISO. Pursuant to the Sale and Purchase Agreement, Mr. Pettitt shall be appointed as the president of ISO commencing from 14 November 2003.

A circular containing details of the Sale and Purchase Agreement and the Supplemental Loan Agreements will be despatched to the shareholders of the Company as soon as practicable.

DEFINITIONS

“Alignment”	Alignment Technology Limited, a limited liability company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Pettitt
“Business Day”	a day in which trading banks are open for business in Hong Kong, save for a Saturday
“Company”	Linmark Group Limited
“Completion”	completion of the sale and purchase of the entire issued share capital of ISO
“Completion Date”	the date on which Completion occurs which shall not be a date after the Long Stop Date
“Consideration”	the sum of HK\$155,000,000 (subject to downward adjustments) being the consideration for the acquisition of ISO under the Sale and Purchase Agreement
“Digitech”	Digitech Holdings Limited, a limited liability company incorporated under the laws of Hong Kong, in which Mr. Pettitt holds 80% of the issued share capital
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“ISO”	ISO International (Holdings) Limited, a limited liability company incorporated under the laws of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	14 November 2003

“Mr. Pettitt”	Barry Richard Pettitt, not a connected person of the Company as defined in the Listing Rules as at the date hereof
“Proceeds”	proceeds of the public offer and placing of the shares of the Company in May 2002
“Purchaser”	the Company or a directly or indirectly wholly-owned subsidiary nominated by the Company to which the Company may assign its rights and delegate its duties under the Sale and Purchase Agreement
“Sale and Purchase Agreement”	the agreement for the sale and purchase of shares in ISO between the Vendors, ISO and the Purchaser dated 11 November 2003
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Loan Agreements”	the supplemental loan agreements dated 10 November 2003 entered into between ISO as lender and Mr. Pettitt and Digitech as borrowers respectively
“Vendors”	Mr. Pettitt and Alignment
“HK\$”	Hong Kong dollars
“US\$”	United States dollars

For illustrative purpose of this announcement, HK\$7.8 = US\$1.0

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 12 November 2003

* *For identification purpose only*

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