

LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF UNAUDITED FIRST QUARTER RESULTS FOR THE THREE MONTHS ENDED 31 JULY 2003

FIRST QUARTER RESULTS HIGHLIGHTS:

- Shipment volume amounted to approximately US\$131.7 million (equivalent to approximately HK\$1,027.3 million), an increase of about 2.8% as compared to approximately US\$128.1 million (equivalent to approximately HK\$999.2 million) for the corresponding period of last year.
- Turnover registered a marginal decrease of 0.5% to approximately US\$9.5 million (equivalent to approximately HK\$74.1 million) as compared to the same period of last year.
- Net profit after tax amounted to approximately US\$1.9 million (equivalent to approximately HK\$14.8 million), an increase of about 14.4% as compared to the same period of last year.

UNAUDITED RESULTS

The board of directors (“Directors”) of Linmark Group Limited (“Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the three months ended 31 July 2003 with comparative figures for the previous corresponding period are as follows:

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Consolidated Income Statements

		For the three months ended 31 July	
		2003	2002
	Notes	US\$'000	US\$'000
Turnover	2	9,481	9,526
Cost of sales		<u>(1,468)</u>	<u>(1,581)</u>
Gross profit		8,013	7,945
Other operating income		413	239
Administrative expenses		<u>(6,521)</u>	<u>(6,518)</u>
Profit from operations		1,905	1,666

Interest on obligations under a finance lease		<u>(1)</u>	<u>(1)</u>
Profit before taxation	3	1,904	1,665
Taxation	4	<u>(50)</u>	<u>(44)</u>
Profit for the period		<u>1,854</u>	<u>1,621</u>
Earnings per share (US cent)	5		
— Basic		0.3	0.3
— Diluted		<u>0.3</u>	<u>N/A</u>

Consolidated Balance Sheets

		As at 31 July 2003 <i>US\$'000</i> <i>(Unaudited)</i>	As at 30 April 2003 <i>US\$'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS			
Machinery and equipment	6	1,951	1,900
Club membership		83	119
Deferred expenditure		<u>3,014</u>	<u>3,014</u>
		<u>5,048</u>	<u>5,033</u>
CURRENT ASSETS			
Trade receivables	7	6,287	5,725
Prepayments, deposits and other receivables		1,395	1,762
Amount due from a fellow subsidiary		—	11
Securities linked deposits		7,273	6,019
Bank balances and cash		<u>33,136</u>	<u>31,920</u>
		<u>48,091</u>	<u>45,437</u>
CURRENT LIABILITIES			
Trade payables	8	1,092	767
Accruals and other payables		2,287	1,842
Obligations under a finance lease — due within one year		22	22
Tax payable		<u>1,155</u>	<u>1,146</u>
		<u>4,556</u>	<u>3,777</u>
NET CURRENT ASSETS		<u>43,535</u>	<u>41,660</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>48,583</u>	<u>46,693</u>

NON-CURRENT LIABILITIES

Obligations under a finance lease — due after one year	—	6
Post-employment benefits	1,092	1,018
Deferred taxation	13	18

1,105 1,042

NET ASSETS

47,478 45,651

CAPITAL AND RESERVES

Share capital	12,948	12,948
Reserves	34,530	32,703

47,478 45,651

Notes:

1. Principal Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and the accounting policies adopted which are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 April 2003.

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

	For the three months ended 31 July 2003		
	Sales of merchandise <i>US\$'000</i>	Services rendered <i>US\$'000</i>	Total <i>US\$'000</i>
REVENUE			
External revenue	<u>1,870</u>	<u>7,611</u>	<u>9,481</u>
SEGMENT RESULTS	<u>169</u>	<u>1,546</u>	1,715
Unallocated corporate expenses			(58)
Interest income			248
Finance costs			<u>(1)</u>
Profit before taxation			1,904
Taxation			<u>(50)</u>
Profit for the period			<u><u>1,854</u></u>

	For the three months ended 31 July 2002		
	Sales of merchandise <i>US\$'000</i>	Services rendered <i>US\$'000</i>	Total <i>US\$'000</i>
REVENUE			
External revenue	<u>1,918</u>	<u>7,608</u>	<u>9,526</u>
SEGMENT RESULTS	<u>190</u>	<u>1,489</u>	1,679
Unallocated corporate expenses			(101)
Interest income			88
Finance costs			<u>(1)</u>
Profit before taxation			1,665
Taxation			<u>(44)</u>
Profit for the period			<u>1,621</u>

By Geographical Markets

The following table provides an analysis of the Group's sales by geographical location of customers.

	For the three months ended 31 July	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
United States	3,670	4,328
Canada	2,767	2,446
Europe	812	515
Hong Kong	750	671
Others	<u>1,482</u>	<u>1,566</u>
	<u>9,481</u>	<u>9,526</u>

3. Profit Before Taxation

	For the three months ended 31 July	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Profit before taxation has been arrived at after charging:		
Depreciation of machinery and equipment	<u>232</u>	<u>168</u>

4. Taxation

For the three months
ended 31 July

2003 2002
US\$'000 US\$'000

The charge comprises:

Hong Kong profits tax

— current period

— 1

Income tax in other jurisdictions

— current period

61 52

— (over)/under provision in prior years

(6) 4

Deferred taxation

(5) (13)

50 44

5. Earnings Per Share

The calculation of the basic earnings per share for the three months ended 31 July 2003 is based on the profit attributable to shareholders of approximately US\$1,854,000 and on the weighted average number of approximately 647,400,000 shares in issue during the financial period.

The calculation of the basic earnings per share for the three months ended 31 July 2002 was based on the profit attributable to shareholders of approximately US\$1,621,000 and on the weighted average number of approximately 631,291,000 shares in issue during the financial period.

Diluted earnings per share is calculated based on the weighted average number of approximately 654,403,000 (2002: anti-dilutive) shares issued and issuable during the financial period.

6. Movements in Machinery and Equipment

During the three months ended 31 July 2003, the Group spent approximately US\$294,000 (2002: US\$637,000) on acquisition of machinery and equipment.

7. Trade Receivables

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

	As at 31 July 2003 US\$'000	As at 30 April 2003 US\$'000
0 – 30 days	4,239	3,713
31 – 60 days	1,351	1,625
61 – 90 days	338	204
Over 90 days	<u>1,108</u>	<u>891</u>
	7,036	6,433
Less: Allowance for doubtful debts	<u>(749)</u>	<u>(708)</u>
	<u>6,287</u>	<u>5,725</u>

8. Trade Payables

The aged analysis of trade payables is as follows:

	As at 31 July 2003 US\$'000	As at 30 April 2003 US\$'000
0 – 30 days	594	462
31 – 60 days	260	59
61 – 90 days	27	22
Over 90 days	<u>211</u>	<u>224</u>
	<u><u>1,092</u></u>	<u><u>767</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months under review, the global retail market remained challenging with the US's involvement in the Iraqi war. Consumer activities in the European markets were relatively stable, as strong Euro continued to lend support to these markets. As for Asia, sentiment was generally weak in the region due to the aftermath of the SARS outbreak in the first half of 2003.

Despite the above challenges and the resultant cancellation of buying trips of certain overseas buyers, the Group achieved a 2.8% growth in shipment volume to approximately US\$131.7 million (equivalent to approximately HK\$1,027.3 million) as compared to the same period of last year. While shipment orders from most of the existing customers remained stagnant during the period under review, the increase in shipment volume came mainly from the contribution of one of our accounts acquired during last financial year. This major account with large shipment volume which enjoyed the lower end of the commission band, caused the turnover to drop by 0.5% to approximately US\$9.5 million (equivalent to approximately HK\$74.1 million) during the period under review.

The Group's unaudited net profit after tax was recorded at approximately US\$1.9 million (equivalent to approximately HK\$14.8 million), 14.4% higher than the corresponding period of last year. This was mainly attributable to increased interest income during the period. In addition, we relocated a substantial part of our backroom and buying operations from traditionally high costs areas such as Hong Kong and Singapore to Mainland China. This improvement demonstrated the Group's commitment to seek the best returns through constant business review. Basic earnings per share was approximately 0.3 US cent (equivalent to approximately 2.3 HK cents).

- The US market continued to be our largest market, accounting for 38.7% of total turnover for the period under review. The Canadian market accounted for 29.2%. The growth in turnover from this market was a direct result of our efforts in promoting our private label development business. Contribution from the European market was much higher than the corresponding period of last year and accounted for 8.6% of total turnover. The remaining 23.5% was contributed by other markets.

- Our value-added services remained key in facilitating growth. During the three months under review, turnover generated from this segment of business rose significantly by 58.8% from approximately US\$1.7 million (equivalent to approximately HK\$13.3 million) to approximately US\$2.7 million (equivalent to approximately HK\$21.1 million), accounting for 28.4% of the total turnover.
- Our hardgoods business developed well during the period under review, reporting turnover of approximately US\$0.8 million (equivalent to approximately HK\$6.2 million), representing a growth of 33.3% over the corresponding period of last year. With the appointment of a new business director in charge and potential market opportunities, the Group remains committed to expanding this business.

Financial Review

The Group's financial position is strong with deposits and cash balances of approximately US\$40.4 million (equivalent to approximately HK\$315.1 million) as at 31 July 2003. In addition, the Group has banking facilities of approximately US\$1.0 million (equivalent to approximately HK\$7.8 million) which have not been utilised. The Group has continued to operate under a debt-free model with no outstanding net debts as at 31 July 2003 except a hire purchase loan for a motor vehicle at a net book value of approximately US\$43,000 (equivalent to approximately HK\$335,000).

The Group had a strong current ratio of 10.6 and a negligible gearing ratio of less than 0.1%, based on interest bearing borrowings of approximately US\$22,000 (equivalent to approximately HK\$172,000) to shareholders' equity of approximately US\$47.5 million (equivalent to approximately HK\$370.5 million), as at 31 July 2003. During the period under review, the Group's capital comprised solely of shareholders' equity. There has not been any material change in the Group's borrowings since 31 July 2003.

The Group's unaudited net asset value as at 31 July 2003 was approximately US\$47.5 million (equivalent to approximately HK\$370.5 million).

As at 31 July 2003, the Group had no material contingent liability 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 the Hong Kong dollar is pegged to US dollar, the management believes that exchange risk is not significant at this time.

Prospects

Looking into the rest of the financial year, market environment appears to be mixed. On the one hand, the trend of outsourcing is expected to continue given favourable conditions including gradual abolishment of quota system in the PRC; on the other hand, price deflation of garment is also expected to remain, though at a slowing rate.

On the back of this environment, the Group is more determined than ever to excel by adding value to our customers. Our focus will continue to be diversification and innovation. Catalysts for growth will continue to be signing of new customers and provision and expansion of our value-added services. Our strong cash position also places us in a ready position for potential mergers and acquisitions. The management is under active negotiation with prospective new customers and is cautiously optimistic that more new customers will be secured by the end of this financial year. In addition to our existing markets, the Group is also pushing to gain coverage in new markets.

Adhering to our tradition in maintaining the best industry professionals, we will continue to focus on execution and staff development. Ongoing operation review will be of paramount importance in delivering better performance.

The Group will remain vigilant on market conditions and given its established strengths, the Board is confident to achieve satisfactory results for the rest of the financial year and beyond.

DIVIDEND

The Directors do not declare the payment of dividend for the period under review.

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.

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 of Hong Kong Limited ("Stock Exchange") during the period under review.

PUBLICATION OF THE RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board
WANG Lu Yen
Chairman

Hong Kong, 24 September 2003

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* *For identification purpose only*

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