

LINMARK

LINMARK GROUP LIMITED

林麥集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 915

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2004

INTERIM RESULTS HIGHLIGHTS

- Profit after taxation amounted to approximately US\$7.4 million (equivalent to HK\$57.7 million), an increase of approximately 5.1% as compared to the corresponding period of last year.
- Turnover grew by approximately 22.3% to approximately US\$25.9 million (equivalent to HK\$202.0 million) as compared to the corresponding period of last year.
- Shipment volume amounted to approximately US\$376.4 million (equivalent to HK\$2,935.9 million).
- Declared an interim dividend of 2.63 HK cents (equivalent to 0.34 US cent) per share.

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 six months ended 31 October 2004, together with comparative figures for the previous corresponding period, are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	For the six months ended 31 October	
		2004 (Unaudited) US\$'000	2003 (Unaudited) US\$'000
Turnover	2	25,946	21,211
Cost of sales		<u>(3,895)</u>	<u>(3,029)</u>
Gross profit		22,051	18,182
Other operating income		1,380	1,742
Administrative expenses		<u>(15,817)</u>	<u>(12,759)</u>

Profit from operations	3	7,614	7,165
Finance costs		(1)	(1)
Gain on dissolution of a subsidiary		<u>14</u>	<u>—</u>
Profit before taxation		7,627	7,164
Taxation	4	<u>(243)</u>	<u>(141)</u>
Profit for the period		<u><u>7,384</u></u>	<u><u>7,023</u></u>
Dividends	5	<u><u>2,207</u></u>	<u><u>2,091</u></u>
Earnings per share (US cents)	6		
— Basic		1.1	1.1
— Diluted		<u><u>1.1</u></u>	<u><u>1.1</u></u>

Consolidated Balance Sheet

		At 31 October 2004 (Unaudited) US\$'000	At 30 April 2004 (Audited) US\$'000
NON-CURRENT ASSETS			
Machinery and equipment	7	2,078	2,176
Club membership		83	83
Goodwill		15,767	16,181
Deferred expenditure		<u>3,014</u>	<u>3,014</u>
		<u><u>20,942</u></u>	<u><u>21,454</u></u>
CURRENT ASSETS			
Trade receivables	8	10,611	10,535
Prepayments, deposits and other receivables		5,528	2,202
Short-term investment		144	109
Bank balances and cash		<u>37,951</u>	<u>34,869</u>
		<u><u>54,234</u></u>	<u><u>47,715</u></u>
CURRENT LIABILITIES			
Trade payables	9	1,376	923
Accruals and other payables		7,161	2,478
Tax payable		1,115	1,861
Obligations under a finance lease — due within one year		—	6
Balance of consideration payable for an acquisition of a subsidiary — due within one year		<u>1,987</u>	<u>1,987</u>
		<u><u>11,639</u></u>	<u><u>7,255</u></u>
NET CURRENT ASSETS		<u><u>42,595</u></u>	<u><u>40,460</u></u>

TOTAL ASSETS LESS CURRENT LIABILITIES	<u>63,537</u>	<u>61,914</u>
NON-CURRENT LIABILITIES		
Balance of consideration payable for an acquisition of a subsidiary — due after one year	1,987	3,974
Post-employment benefits	1,332	1,272
Deferred taxation	<u>21</u>	<u>21</u>
	<u>3,340</u>	<u>5,267</u>
NET ASSETS	<u>60,197</u>	<u>56,647</u>
CAPITAL AND RESERVES		
Share capital	13,093	13,090
Reserves	<u>47,104</u>	<u>43,557</u>
	<u>60,197</u>	<u>56,647</u>

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 short-term investment. 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.

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

	Unaudited		
	For the six months ended 31 October 2004		
	Sales of merchandise US\$'000	Services rendered US\$'000	Total US\$'000
REVENUE			
External revenue	<u>5,438</u>	<u>20,508</u>	<u>25,946</u>
SEGMENT RESULTS	<u>913</u>	<u>5,859</u>	6,772
Unallocated corporate expenses			(218)
Interest income			1,060
Finance costs			(1)
Gain on dissolution of a subsidiary			<u>14</u>
Profit before taxation			7,627
Taxation			<u>(243)</u>
Profit for the period			<u>7,384</u>

	Unaudited		
	For the six months ended 31 October 2003		
	Sales of merchandise <i>US\$'000</i>	Services rendered <i>US\$'000</i>	Total <i>US\$'000</i>
REVENUE			
External revenue	<u>3,810</u>	<u>17,401</u>	<u>21,211</u>
SEGMENT RESULTS	<u>390</u>	<u>5,860</u>	6,250
Unallocated corporate expenses			(199)
Interest income			1,114
Finance costs			<u>(1)</u>
Profit before taxation			7,164
Taxation			<u>(141)</u>
Profit for the period			<u>7,023</u>

By Geographical Markets

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

	Unaudited	
	For the six months ended	
	31 October	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
United States	10,544	7,204
Canada	5,822	6,343
Hong Kong	2,648	2,152
Europe	2,306	1,902
Others	<u>4,626</u>	<u>3,610</u>
	<u>25,946</u>	<u>21,211</u>

3. Profit from Operations

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

	Unaudited	
	For the six months ended	
	31 October	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
Interest income	(1,060)	(1,114)
Reimbursement income from customers	(160)	(108)
Amortisation on goodwill	414	—
Depreciation of machinery and equipment	<u>528</u>	<u>472</u>

4. Taxation

Taxation charge comprises:

	Unaudited	
	For the six months ended	
	31 October	
	2004	2003
	US\$'000	US\$'000
Hong Kong profits tax		
— current period	162	—
Income tax in other jurisdictions		
— current period	67	216
— under/(over) provision in prior years	14	(74)
Deferred taxation	—	(1)
	<u>243</u>	<u>141</u>

5. Dividends

On 16 January 2004, a dividend of 2.5 HK cents per share was paid to shareholders of the Company as an interim dividend for the year ended 30 April 2004. On 19 August 2004, a dividend of 4.5 HK cents per share was paid to shareholders of the Company as the final dividend for the year ended 30 April 2004.

The Directors have declared the payment of an interim dividend of 2.63 HK cents per share in respect of the six months ended 31 October 2004. The interim dividend will be paid in cash on or about 10 January 2005 to shareholders whose names appear on the register of members of the Company on 5 January 2005.

6. Earnings Per Share

The calculation of the basic earnings per share for the six months ended 31 October 2004 is based on the profit attributable to shareholders of approximately US\$7,384,000 (2003: US\$7,023,000) and on the weighted average number of approximately 654,378,000 (2003: 647,603,000) shares in issue during the period.

The calculation of the diluted earnings per share for the six months ended 31 October 2004 is based on the profit attributable to shareholders of approximately US\$7,384,000 (2003: US\$7,023,000) and on the weighted average number of approximately 662,731,000 (2003: 657,372,000) shares issued and issuable, comprising the weighted average number of approximately 654,378,000 (2003: 647,603,000) shares in issue during the period and the weighted average number of approximately 8,353,000 (2003: 9,769,000) shares, as adjusted for the dilutive effect of share options outstanding during the period.

7. Movements in Machinery and Equipment

During the six months ended 31 October 2004, the Group spent approximately US\$539,000 (2003: US\$461,000) 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 October 2004 (Unaudited) US\$'000	At 30 April 2004 (Audited) US\$'000
0–30 days	6,883	7,813
31–60 days	1,250	1,429
61–90 days	747	337
Over 90 days	<u>1,935</u>	<u>1,245</u>
	10,815	10,824
Less: Allowance for doubtful debts	<u>(204)</u>	<u>(289)</u>
	<u><u>10,611</u></u>	<u><u>10,535</u></u>

9. Trade Payables

The aging analysis of trade payables is as follows:

	At 31 October 2004 (Unaudited) US\$'000	At 30 April 2004 (Audited) US\$'000
0–30 days	375	425
31–60 days	456	214
61–90 days	267	154
Over 90 days	<u>278</u>	<u>130</u>
	1,376	923
	<u><u>1,376</u></u>	<u><u>923</u></u>

10. Related Party Transactions

During the period under review, the Group had the following related party transactions:

Identity of related parties	Nature of transactions	Notes	Unaudited For the six months ended 31 October	
			2004 US\$'000	2003 US\$'000
Subsidiaries of Roly	Sales of merchandise	(i)	14	6
International Holdings Ltd.	Rental expense	(ii)	33	48
Turmar Limited	Rental expense	(ii)	65	65
Digitech Holdings Limited	Consultancy fee	(iii)	8	—
Premier Consultants Limited	Consultancy fee	(iv)	<u>15</u>	<u>—</u>

Subsidiaries of Roly International Holdings Ltd. are fellow subsidiaries of the Company.

Turmar Limited is a company owned by Mr. WANG Lu Yen, a director of the Company, and his spouse.

Digitech Holdings Limited is a company 80% owned by Mr. Barry Richard PETTITT, a director of ISO International (Holdings) Limited (“ISO International”) which is a wholly owned subsidiary of the Company.

Premier Consultants Limited is a company 100% owned by Mr. Barry Richard PETTITT.

Notes:

- (i) Sales were based on cost plus a percentage of profit mark-up.
- (ii) Rental expense was determined based on market rate and floor area.
- (iii) Consultancy fee was charged in accordance with the terms of an agreement made between Digitech Holdings Limited and ISO International.
- (iv) Consultancy fee was charged in accordance with the terms of an agreement made between Premier Consultants Limited and ISO International.

11. Post Balance Sheet Event

On 19 November 2004, the Group entered into a conditional agreement to acquire the business and specified assets and to assume related liabilities of Tamarind International Limited (“Tamarind”), for a maximum total purchase price of HK\$226.6 million (equivalent to approximately US\$29.1 million), subject to downward adjustments according to certain performance benchmark levels. Completion of the acquisition is expected to take place by the end of January 2005. Details of the acquisition are set out in the Company’s announcement dated 26 November 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group’s well-defined strategy to diversify and expand its customer base has continued to see solid results. In spite of uncertainties in the global markets resulted from record-breaking high oil prices and rising interest rates, the Group has continued to deliver steady growth in both profit after taxation and revenue.

For the six months ended 31 October 2004, the Group recorded a shipment volume of approximately US\$376.4 million (equivalent to HK\$2,935.9 million). Turnover grew by approximately 22.3% to approximately US\$25.9 million (equivalent to HK\$202.0 million). Gross profit rose by approximately 21.3% to approximately US\$22.1 million (equivalent to HK\$172.4 million).

In preparation for the abolition of global apparel quotas in January 2005 following China’s accession to the WTO, the Group has put in place a strategic plan to expand its sourcing network in China and increased its marketing presence in the major markets including the UK, the US and Canada where the bulk of its target customers are located. To fund these infrastructure developments and the additional expenses incurred following the acquisition of ISO International, an approximately US\$3.0 million (equivalent to HK\$23.4 million) increase in operating expenses, from approximately US\$12.8 million (equivalent to HK\$99.8 million) to approximately US\$15.8 million (equivalent to HK\$123.2 million), was recorded. Despite this, profit after taxation during the period under review still rose by approximately 5.1% from approximately US\$7.0 million (equivalent to HK\$54.6 million) to approximately US\$7.4 million (equivalent to HK\$57.7 million).

Basic earnings per share was maintained at approximately 1.1 US cents (equivalent to 8.6 HK cents).

With a strengthened presence in China and a more diversified customer base, the Group is confident that it is in a better position to take advantage of the future business opportunities as more companies are expected to source from China.

Segmental analysis

The US has continued to be the largest revenue-contributing market of the Group because of the overall increase in order volume from customers based there. During the period under review, revenue generated from US customers represented approximately 40.6% of the total turnover, followed by Canada with a contribution of approximately 22.4%. Europe accounted for approximately 8.9%. The Group will continue to pursue its diversification strategy to achieve a more balanced geographical split in terms of customer base.

The Group's strategy to build up its higher margin value-added services such as design, social compliance auditing and packaging and trim services has proved effective. During the period under review, turnover from value-added services increased by approximately 21.2% from approximately US\$6.6 million (equivalent to HK\$51.5 million) to approximately US\$8.0 million (equivalent to HK\$62.4 million), representing approximately 30.8% of the total turnover.

Pursuant to the Group's effort in diversifying its product categories, during the period under review, hardgoods increased from approximately 11.6% to approximately 20.7% of the Group's total turnover.

Preparation for post-China's accession to the WTO

The official abolition of global apparel quotas as part of the WTO agreement is expected to bring changes to the global textile and sourcing industries. To prepare for these changes, the Group has been actively seeking opportunities that will allow it to create a more solid platform for its global buying agency functions. Linmark has taken a three-pronged approach to strengthen its competitive advantages in the post-quota years: (1) partnering with Chinese authorities to improve the social compliance standard of China's textile industry; (2) deepening sourcing penetration of the China market; and (3) conducting proactive marketing in North America and Europe.

(1) *Partnering with Chinese authorities*

During the period under review, a strategic partnership agreement was signed between the Group and the China Textile Information Center ("CTIC") and the China Textiles Development Center, both are subordinate organisations of the China National Textile Industry Council ("CNTIC"), formerly known as the Textile Ministry. The parties will form a joint venture to promote textile testing services, social compliance auditing, accreditation consultancy services, international trade of China textiles, and the application of supply chain management system and e-commerce services by the textile industry in China.

Additionally, the Group will join hands with the CNTIC, the national federation of all textile related industries in China, and CTIC to develop a China Code of Conduct in Social Compliance for the textile industry in China. The Code will be based essentially on internationally recognised standards and practices which include International Labour Organization Conventions, the United Nation Convention on the Rights of the Child, and Chinese legal requirements. Utilising its experience in auditing and certifying manufacturing facilities in many countries on behalf of well-known brands and retailers, the Group will work closely with the two Chinese counterparts to bring China on a par with international best practices.

(2) Deepening sourcing penetration of the China market

For the period under review, Linmark strengthened its sourcing network in China by adding two new offices in Guangzhou and Qingdao. Both offices are located at the regional apparel manufacturing and distribution hubs, which put the Group in closer and quicker access to the market.

(3) Conducting proactive marketing in North America and Europe

For the period under review, Linmark extended its marketing presence to Toronto (Canada), Paris (France), Manchester (the UK), Los Angeles and New York (the US). The Group is confident that the marketing activities provided by these presences will lead to an increase in business from existing customers as well as the signing up of new customers.

Best practices in corporate governance

In September 2004, Linmark was ranked one of the top 10 Hong Kong listed companies with the best corporate governance in a survey conducted by City University of Hong Kong and sponsored by The Hong Kong Institute of Directors. The evaluation criteria were based on international standards and Hong Kong Exchanges and Clearing Limited's Recommended Best Practice for Corporate Directors. In particular, the five areas evaluated were rights of shareholders, equitable treatment of (minority) shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibility of the board of directors. Some of the best performing companies are Hong Kong based blue-chips corporations, banks and utility companies.

Financial review

The Group's financial position is strong with cash and cash equivalents of approximately US\$38.0 million (equivalent to HK\$296.4 million) as at 31 October 2004. In addition, the Group has total banking facilities of approximately US\$7.0 million (equivalent to HK\$54.6 million) as at 31 October 2004. The Group continued to operate under a debt-free model with no outstanding debt as at 31 October 2004.

The Group has a strong current ratio of 4.7 and gearing ratio is not applicable as the Group has no outstanding debt as at 31 October 2004. During the period under review, the Group's capital comprised solely shareholders' equity. There has not been any material change in the Group's borrowings since 31 October 2004.

The Group's unaudited net asset value as at 31 October 2004 was approximately US\$60.2 million (equivalent to HK\$469.6 million).

As at 31 October 2004, 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, management believes that exchange risk is not significant at this time.

Prospects

Looking ahead, management believes that high oil prices and rising interest rates are likely to persist in the near term, which could prolong uncertainties in the global economy. Despite the uncertain economic outlook, the global outsourcing trend is expected to continue because of the

cost efficiencies outsourcing brings to corporations. The Group is confident that its one-stop sourcing solutions and strong geographical presence will add value to its customers who are looking for cost reductions and higher efficiencies.

In January 2005, the official abolition of global apparel quotas will take place. There have been discussions about the US introducing possible safeguard mechanisms on certain highly utilised quota categories from China. However, the Group, through its global network, is able to offer its customers the flexibility to source products from many other countries, which will minimise any potential disruption if safeguard mechanisms are imposed on China.

The Group will continue its corporate strategy — diversification in both geographical markets and product/service categories — to reinforce its competitive strengths. In terms of product/service offerings, value-added services, such as design and social compliance auditing, will continue to be one of the Group's growth drivers.

In November 2004, the Group entered into a conditional agreement to acquire the business and specified assets and to assume related liabilities of Tamarind, for a maximum total purchase price of HK\$226.6 million (equivalent to approximately US\$29.1 million), subject to downward adjustments according to certain performance benchmark levels. Completion of the acquisition is expected to take place by the end of January 2005. Details of the acquisition are set out in the Company's announcement dated 26 November 2004.

Headquartered in Hong Kong, Tamarind is an integrated sourcing services provider, with offices in China and the Philippines. The Tamarind business encompasses a diversified customer portfolio, including a number of major customers from Europe, South Africa and Australia, thereby broadening the geographic diversity of the Group's customer base and providing the opportunity for the Group to capture the synergistic benefits of cross-utilisation of network resources and local market insights.

Additionally, in November 2004, the Group signed an agency agreement to provide design and sourcing services to Lotus Group ("Lotus"), a subsidiary of the Thailand-based listed company C.P. Seven Eleven Public Company Limited. Linmark agreed to handle for Lotus a private label range of clothing for all ages and genders. Lotus is one of the fastest growing hypermarket stores in China. Lotus stores are located primarily in coastal areas and provincial capitals in China where the population has higher consumption power. It plans to have over 40 stores set up by the end of 2004 and increase the total number of stores to over 100 by 2006. The signing up of this new customer opens the door for the Group to source products for China retailers.

Based on the current assessment, management of Linmark is positive towards the Group's performance for the rest of the financial year ending 30 April 2005.

INTERIM DIVIDEND

The Directors have declared the payment of an interim dividend of 2.63 HK cents (equivalent to 0.34 US cent) per share in respect of the six months ended 31 October 2004 and such interim dividend will be paid on or about 10 January 2005 in cash to shareholders whose names appear on the register of members of the Company on 5 January 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 January 2005 to 5 January 2005, both days inclusive. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 12.00 noon on 31 December 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, the Company repurchased 538,000 shares on The Stock Exchange of Hong Kong Limited (“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		Aggregate price paid <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
May 2004	<u>538,000</u>	2.95	2.50	<u>1,465</u>

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.

CHANGE OF AUDITORS

At the 2004 annual general meeting of the Company held on 16 August 2004, Messrs. PricewaterhouseCoopers were appointed as new auditors of the Company to fill the vacancy following the retirement of Messrs. Deloitte Touche Tohmatsu at the 2004 annual general meeting of the Company.

REVIEW OF RESULTS

The unaudited results of the Group for the six months ended 31 October 2004 have been reviewed by the external auditors of the Company in accordance with Statement of Auditing Standards No. 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. The audit committee, comprising the three independent non-executive Directors referred to below, has reviewed with management and the Company’s external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The audit committee has also discussed with the external auditors the interim audit committee report issued by the external auditors in relation to their review of the Company’s interim financial report.

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 during 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, 14 December 2004

Principal Place of Business in Hong Kong:
20th Floor, Office Tower One
The Harbourfront, 18 Tak Fung Street
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* *For identification purpose only*

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