



GLORY MARK HI-TECH (HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

FIRST QUARTERLY REPORT 2003

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors of Glory Mark Hi-Tech (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**FINANCIAL HIGHLIGHTS - UNAUDITED**

	Three months ended		Increase %
	31 March		
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	
Turnover	43,469	37,337	16.4%
Gross profit	11,351	9,693	17.1%
Net profit attributable to shareholders	6,163	4,203	46.6%
Dividend	—	—	—
Basic earnings per share	HK1.93 cents	HK1.31 cents	47.3%

**QUARTERLY RESULTS**

The board of directors (the "Directors") of the Company is pleased to announce that the unaudited results of the Company, its subsidiaries and associate (collectively referred to as the "Group") for the three months ended 31 March 2003, together with the comparative figures for the corresponding period in 2002, as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT — UNAUDITED**

For the three months ended 31 March 2003

	Notes	Three months ended	
		31 March	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	43,469	37,337
Cost of sales		(32,118)	(27,644)
Gross profit		11,351	9,693
Other operating income	3	2,162	418
Selling and distribution expenses		(1,266)	(932)
Administrative expenses		(5,833)	(4,808)
Profit from operations		6,414	4,371
Finance cost		—	(1)
Share of result of an associate		12	—
Profit before taxation	7	6,426	4,370
Taxation	4	(263)	(167)
Profit for the period		6,163	4,203
Dividend	5	—	—
Earnings per share			
Basic	8	HK1.93 cents	HK1.31 cents
Diluted		N/A	HK1.28 cents

Notes:

**1. General and basis of preparation of the accounts**

The Company was incorporated in the Cayman Islands on 13 June 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands.

The Company acts as an investment holding company.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

**2. Turnover**

Turnover represents the amounts received and receivable, net of discounts and returns, from the sale of connectivity products mainly for computers and peripheral products during the period.

**3. Other operating income**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2003</b>	2002
	(Unaudited)	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Commission income (Note)	1,703	108
Handling fee income	165	17
Exchange gain	105	—
Interest income	96	122
Rental income	35	37
Subcontracting fee income	—	21
Others	58	113
	<b>2,162</b>	<b>418</b>
	<b>2,162</b>	<b>418</b>

Note:

The substantial increase in commission income during the discussion period was mainly attributable to the commission income acquired from a Taiwan company (the "Taiwan Company"). In 2002, the Taiwan Company appointed a wholly owned subsidiary of the Group (the "Subsidiary") as its agent to develop certain designated PRC markets. The Taiwan Company is principally engaged in development and manufacture of computer and communication products. The Subsidiary successfully lined up a leading PRC communication products manufacturer and distributor (the "Agency Customer") as the customer of the Taiwan Company. During the discussion period, a coloured TFT GPRS mobile handset developed by the Taiwan Company was at marketing and production testing stage and launched to the PRC market via selling to the Agency Customer.

**4. Taxation**

The taxation provided represents PRC enterprise income tax, which is calculated at the rates prevailing.

No provision for Hong Kong Profits Tax has been made in the financial statements, as the Group has no assessable profit in Hong Kong for the period.

No provision for deferred taxation has been made in the financial statements, as there were no material timing differences arising during the period and at the balance sheet date.

**5. Dividend**

The Directors do not recommend the payment of the first quarterly dividend for the three months ended 31 March 2003 (2002: nil).

**6. Reserves**

There has been no transfer to or from reserves during the three months ended 31 March 2003 (2002: nil).

**7. Profit Before Taxation**

Profit before taxation is stated after charging the following:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Staff costs (including directors' emoluments)	<b>7,160</b>	6,191
Operating lease rentals in respect of office premises	<b>187</b>	72
Depreciation of fixed assets	<b>760</b>	612
Auditors' remuneration	<b>171</b>	167
	<b><u>7,178</u></b>	<u>7,042</u>

**8. Earnings Per Share**

The calculation of basic earnings per share for the three months ended 31 March 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$6,163,000 (2002: HK\$4,203,000) and on the weighted average number of approximately 320,000,000 shares (2002: 320,000,000 shares)

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u><b>6,163</b></u>	<u>4,203</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>320,000,000</b>	320,000,000
Effect of dilutive potential ordinary shares Share Options ( <i>Note</i> )	<u>—</u>	<u>8,585,366</u>
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	<u><b>320,000,000</b></u>	<u>328,585,366</u>

*Note:* No dilutive earnings per share has been presented for the three months ended 31 March 2003 because the exercise price of the Company's share options was higher than the average of the closing market price for shares for the period.

## **BUSINESS REVIEW**

### **Segmental Information**

The Group is principally engaged in the design, development, manufacture and sale of connectivity products mainly for computers and computer peripheral products. The majority of the Group's products are sold to original equipment manufacturer ("OEM") customers and retail distributors. These businesses to OEM customers and retail distributors are the basis on which the Group reports its primary segmental information.

**Business segments**

	<b>Turnover</b>			
	<b>Three months ended 31 March</b>			
	<b>2003</b>		<b>2002</b>	
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>HK\$'000</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>
OEM customers	<b>29,808</b>	<b>68.6%</b>	25,292	67.7%
Retail distributors	<b>13,661</b>	<b>31.4%</b>	12,045	32.3%
	<b><u>43,469</u></b>	<b><u>100.0%</u></b>	<b><u>37,337</u></b>	<b><u>100.0%</u></b>

**Geographical segments**

The following table provides an analysis of the Group's turnover by geographical market.

	<b>Turnover</b>			
	<b>Three months ended 31 March</b>			
	<b>2003</b>		<b>2002</b>	
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>HK\$'000</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>
Taiwan	<b>23,123</b>	<b>53.2%</b>	16,762	44.9%
Japan	<b>8,082</b>	<b>18.6%</b>	7,253	19.4%
United States of America	<b>7,238</b>	<b>16.7%</b>	8,404	22.5%
Korea	<b>1,620</b>	<b>3.7%</b>	3,756	10.1%
Others	<b>3,406</b>	<b>7.8%</b>	1,162	3.1%
	<b><u>43,469</u></b>	<b><u>100.0%</u></b>	<b><u>37,337</u></b>	<b><u>100.0%</u></b>

## Product segments

The following table provides an analysis of the Group's turnover by product categories.

	<b>Turnover</b>			
	<b>Three months ended 31 March</b>			
	<b>2003</b>		<b>2002</b>	
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>HK\$'000</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>
Monitor cables	<b>18,507</b>	<b>42.6%</b>	16,086	43.1%
Conventional I/O cables	<b>11,471</b>	<b>26.4%</b>	12,004	32.1%
Multi-function/high speed transmission connectivity products	<b>13,491</b>	<b>31.0%</b>	9,247	24.8%
	<b><u>43,469</u></b>	<b><u>100.0%</u></b>	<b><u>37,337</u></b>	<b><u>100.0%</u></b>

During the three months ended 31 March 2003, turnover of the Group was HK\$43,469,000, up 16.4% as compared to the previous corresponding period. Net profit for the period was HK\$6,163,000, up 46.6% as compared to the previous period of HK\$4,203,000. Basic earnings per share was HK1.93 cents (2002: HK1.31 cents).

The increase in turnover was mainly attributable to the successful marketing effort made by the Taiwan branch of the Group and the marketing strategy of launching higher margin multi-function/high speed transmission connectivity products.

The Taiwan branch was established in the second half of 2001. It provides marketing, material procurement and research and development services for the Group. The establishment of the Taiwan branch facilitates the rationalisation of the Group stand. Presently Taiwan is the leading design and OEM manufacturing site of global computer branded products. Therefore, the Taiwan branch optimises its geographical advantages and has successfully built up close commercial partnerships with the leading Taiwan customers and suppliers of the Group. Adding to the Hong Kong's alert financial management centre and the highly cost effective production site in the Dongguan, PRC, this effective combination helps the Group to outperform amidst keen competition.



Sales to OEM customers and retail distributors were HK\$29,808,000 and HK\$13,661,000 respectively, up 17.9% and 13.4% respectively as compared to the previous corresponding period. Sales to the OEM customers achieved a higher increasing rate, mainly because of the Group's successfully marketing effort of reinforcing the commercial partnerships with the two major Taiwan OEM manufacturers.

Despite keen competition, the Group reported slight increase in its gross profit margin, up from 26.0% of previous corresponding period to 26.1% of the period. This was resulted from the Group's launching of higher margin multi-function/high speed transmission connectivity products during the period, which successfully offset the adverse effect of pricing pressure due to the competition. During the discussion period, the turnover of the multi-function/high speed transmission connectivity products of the Group was HK\$13,491,000, increased substantially by 45.9% as compared to the previous corresponding period. This formed the fastest growing product category of the Group during the period.

In terms of the geographical segments, the turnover to Taiwan and other regions increased satisfactorily, reported HK\$23,123,000 and HK\$3,406,000 respectively, up 37.9% and 193.1% as compared to the previous corresponding period. These satisfactory results were mainly attributable to the Group's successfully marketing effort of reinforcing the commercial relationships with two major Taiwan OEM manufacturers and the successfully solicitation of a new PRC customer. Sales to Japan was HK\$8,082,000, up 11.4%, while sales to the United States of America and Korea dropped 13.9% and 56.9% respectively. The decrease in sales to Korea was mainly due to the decrease in demand from a major Korea customer.

The net profit of the Group during the discussing period was HK\$6,163,000, up 46.6% as compared to the previous corresponding period. The increase in net profit was mainly attributable to the increase in turnover and a commission income earned during the period. In 2002, a wholly owned subsidiary of the Group (the "Subsidiary") was appointed as an agent to develop certain designated PRC markets for a Taiwan company (the "Taiwan Company"). The Taiwan Company is principally engaged in development and manufacture of computer and communication products. This company has remarkable product development ability and is one of the top five private-owned enterprises in the similar industry in Taiwan. During the discussing period, a coloured TFT GPRS mobile handset developed by the Taiwan Company was at marketing and production testing stage and launched to the PRC market via selling to a PRC customer (the "Agency Customer") which was lined up by the Subsidiary. The Agency Customer is a

leading communication products manufacturer and distributor in the PRC. It is principally engaged in development, manufacture and distribution of communication products and owned one of three leading PRC mobile handset brands. The Taiwan Company and the Agency Customer are independent third parties. None of the directors, chief executive officer, principal management shareholders or their associates of the Company, its subsidiaries and associate had any personal, family, corporate or other interests in the share of the Taiwan Company or the Agency Customer or their associated corporations.

During the discussing period, the selling and distribution expenses and administrative expenses of the Group increased by 35.8% and 21.3% respectively as compared to the previous corresponding period. These were mainly due to the increase in commission-bearing sales and the increase in the various administrative expenses as coped with the expansion of the Group.

#### **PRODUCTION CAPACITY AND CAPABILITY**

To cope with the anticipated increase in demand of the Group's products and its development plan, the Group is liaising to purchase a land of 38,000 square metres with quarter premises at Tangxia Town, where is nearly the existing production factory of the Group. If the purchase is smooth, the new factory will be put into production in early 2004.

To ensure that the Group can complete its development plan on time irrespective of the result of the above negotiation, the Group is simultaneously liaising with the Tangxia Government for selecting a land as an alternative for the new factory premises.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

The financial position of the Group was strong. The Group had cash on hand of over HK\$47 million and had no interest bearing debt as at 31 March 2003. Most of the Group's cash on hand as at 31 March 2003 were US Dollars and Hong Kong Dollars and were placed as short-term deposits with reputable banks of Hong Kong.

## **OUTLOOK**

Despite the recovery of the economy is once again petrified by the various adverse factors influencing the global economy as well as the serious deficit budget and SARS that are hard hitting Hong Kong, the global computer and communication industries are growing in a fast upwards track. The popularisation of digital products and the rapid increase in demand for digital transmissions generate new business opportunities to the Group.

The Group's well-established connection networks in Taiwan, Hong Kong and the PRC generated business opportunities. A wholly owned subsidiary of the Group was appointed as an agent to develop certain designated PRC markets for a Taiwan company, which is one of the top five private-owned computer and communication products manufacturer in Taiwan. The Group successfully lined up the cooperation between the Taiwan company and a PRC mobile handset manufacturer and distributor that owned one of three leading PRC mobile handset brands. Meanwhile a series of new TFT GPRS mobile handsets developed under this cooperation relationship were launched to the PRC market. The initial marketing response is satisfactory. It is anticipated to bring a pleasing commission income to the Group.

The Group will further consolidate and explore its agency business in order to generate synergy effect to its core businesses and the development of its electronics business, with the ultimate goal of enhancing the economic benefits of the Group.

Looking ahead, the Directors are optimistic to its business.

## **DIRECTORS' INTERESTS IN SHARES**

As at 31 March 2003, the interests of the directors and their respective associates in the share capital of the Company as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

**i. Shares of the Company**

Name of Director	Number of Shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Pang Kuo-Shi ("Mr. Pang")	—	139,808,000 <i>(note)</i>	—	—	139,808,000
Mr. Wong Chun ("Mr. Wong")	58,272,000	—	—	—	58,272,000
Mr. Hsia Chieh-Wen ("Mr. Hsia")	34,944,000	—	—	—	34,944,000

*Note:* Modern Wealth Assets Limited held the 139,808,000 shares. Modern Wealth Assets Limited is a wholly owned subsidiary of True Profit Management Limited, which in turn is a wholly-owned subsidiary of HSBC International Trustee Limited, the trustee of a discretionary trust. Mr. Pang's wife is the discretionary object of the Pang's Family Trust.

**ii. Share options**

Name of Director	Number of shares to be issued upon exercise of the options	Date of grant	Exercise price per share HK\$	Expiration date
Mr. Pang	8,000,000	13 December 2001	0.30	12 December 2006
Mr. Wong	6,000,000	13 December 2001	0.30	12 December 2006
Mr. Hsia	3,000,000	13 December 2001	0.30	12 December 2006
Mr. Wong Ngok Chung	3,000,000	13 December 2001	0.30	12 December 2006

No share option was exercised by the directors to subscribe for a share in the Company during the period.

Save as disclosed above, as at 31 March 2003, none of the directors or their associates had any personal, family, corporate or other interests in the shares of the Company or its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEMES

On 13 December 2001, the Directors approved Post-IPO Share Option Scheme and Pre-IPO Share Option Scheme (the "Schemes"). The summary of the terms of the Schemes has been set out in Appendix IV of the Prospectus dated 18 December 2001 under the section headed "Share Option Schemes". On 13 December 2001, the Directors granted options to subscribe for an aggregate of 32,000,000 ordinary shares of the Company and were outstanding. Details of the options granted are as follows:

Categories of grantees	Number of shares to be issued upon exercise of the options	Outstanding at 31 March 2003	Cumulative number of shares to be issued upon exercise of the options and their exercisable period	
Executive Directors	20,000,000	20,000,000	6,000,000	13.12.2002 — 12.12.2006
			12,000,000	13.12.2003 — 12.12.2006
			20,000,000	13.12.2004 — 12.12.2006
Employees	12,000,000	12,000,000	3,600,000	13.12.2002 — 12.12.2006
			7,200,000	13.12.2003 — 12.12.2006
			12,000,000	13.12.2004 — 12.12.2006
Total	<u>32,000,000</u>	<u>32,000,000</u>		

No share options was exercised by the directors/other employees to subscribe for a share in the Company during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register required to be kept under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Modern Wealth Assets Limited	139,808,000 shares	43.69%
Mr. Wong Chun	58,272,000 shares	18.21%
Mr. Hsia Chieh-Wen	34,944,000 shares	10.92%

*Note —*

Save as disclosed above, the Company had no notice of any interests to be disclosed under Section 16(1) of the SDI Ordinance as at 31 March 2003.

## SPONSOR'S INTEREST

As at 31 March 2003, neither Kingston Corporate Finance Limited (the "Sponsor"), nor its directors, employees or associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

## CORPORATE GOVERNANCE

The Company has complied throughout the three months ended 31 March 2003 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on the GEM.

## INTERESTS IN COMPETITORS

During the three months ended 31 March 2003, none of the directors of the management shareholders or their respective associates of the Company had an interest in a business which competes or may compete with the business of the Group.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

During the period, the Group entered into the following transactions with related parties:

Name of related party	Nature of transactions	Three months ended	
		2003	2002
		HK\$'000	HK\$'000
Glory Mark Enterprises Limited ("GM Enterprises")	Rent paid ( <i>Note b</i> )	111	63
Glory Mark Electronic Limited (incorporated in Taiwan) ("GM Taiwan")	Rent paid ( <i>Note b</i> )	34	—
San Chen Company ("San Chen")	Rent paid ( <i>Note b</i> )	34	—
C & C Technic Taiwan Co., Ltd. ("C & C")	Sales of goods ( <i>Note a</i> ) Purchases of goods ( <i>Note b</i> )	40 727	240 1,778

*Notes:*

- (a) These transactions were carried out at cost plus a profit mark up.
- (b) These transactions were based on amounts agreed between the parties concerned.

Mr. Pang, Mr. Wong and Mr. Hsia, the directors and the shareholders of the Company, together hold 79% interest in GM (Taiwan) and 100% interest in GM Enterprises. Mr. Pang holds 40% interest in San Chen. Mr. Pang's wife holds 11.67% interest in C & C.

Saved as disclosed above:

- (i) there were no transactions, which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules; and
- (ii) no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## **AUDIT COMMITTEE**

The audit committee comprises two members, Mr. Lau Ho Kit, Ivan and Dr. Hon. Lui Ming Wah, JP, who are independent non-executive directors of the Company. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures.

## **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 ended 31 March 2003.

On behalf of the Board  
**Wong Chun**  
*Chief Executive Officer*

Hong Kong Special Administrative Region of the People's Republic of China

13 May 2003