

First Quarterly Report

2004

**Glory Mark Hi-Tech (Holdings) Limited**  
(Incorporated in the Cayman Islands with limited liability)



GMM

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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.*

The Board of Directors (the "Directors") of Glory Mark Hi-Tech (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the three months ended 31 March 2004

	Notes	Three months ended 31 March	
		2004 HK\$'000	2003 HK\$'000
Turnover	3	56,368	43,469
Cost of sales		<u>(44,923)</u>	<u>(32,118)</u>
Gross profit		11,445	11,351
Other income		464	2,162
Selling and distribution expenses		(1,921)	(1,266)
Administrative expenses		<u>(5,478)</u>	<u>(5,833)</u>
Profit from operations		4,510	6,414
Finance costs		—	—
Share of results of an associate		<u>—</u>	<u>12</u>
Profit before taxation		4,510	6,426
Taxation	5	<u>(492)</u>	<u>(263)</u>
Profit for the period		<u>4,018</u>	<u>6,163</u>
Dividend	6	<u>—</u>	<u>—</u>
Earnings per share	7		
Basic		<u>HK1.26 cents</u>	<u>HK1.93 cents</u>
Diluted		<u>HK1.25 cents</u>	<u>N/A</u>

Notes :

**1. GENERAL AND BASIS OF PRESENTATION**

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 condensed financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its audited financial statements for the year ended 31 December 2003.

**3. TURNOVER**

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

**4. SEGMENT 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 business to OEM customers and retail distributors are the basis on which the Group reports its primary segment information.

**Business segments**

	Turnover			
	Three months ended 31 March			
	2004		2003	
	HK\$'000	%	HK\$'000	%
OEM customers	39,210	69.6%	29,808	68.6%
Retail distributors	17,158	30.4%	13,661	31.4%
	<u>56,368</u>	<u>100.0%</u>	<u>43,469</u>	<u>100.0%</u>

**Geographical segments**

Sales analysis by geographical customer market:—

	Turnover			
	Three months ended 31 March			
	2004		2003	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Taiwan	26,748	47.4%	23,123	53.2%
Japan	12,105	21.5%	8,082	18.6%
The United States of America	5,936	10.5%	7,238	16.7%
Korea	5,000	8.9%	1,620	3.7%
Others	6,579	11.7%	3,406	7.8%
	<u>56,368</u>	<u>100.0%</u>	<u>43,469</u>	<u>100.0%</u>

**5. TAXATION****Three months ended 31 March**

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
— Hong Kong Profits Tax	—	—
— Taxation arising in other jurisdiction	<u>(492)</u>	<u>(263)</u>
	<u>(492)</u>	<u>(263)</u>

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.

Taxation in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

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.

**6. DIVIDEND PAID**

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004 (three months ended 31 March 2003: nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$4,018,000 (three months ended 31 March 2003- HK\$6,163,000) and on the weighted average number of approximately 320,000,000 shares (2003 – 320,000,000 shares).

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

	Three months ended 31 March	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share	4,018	6,163
Weighted average number of ordinary shares for the purposes of basic earnings per share	320,000,000	320,000,000
Effect of dilutive potential ordinary shares:		
Options	1,649,067	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	321,649,067	320,000,000

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

## 8. ADVANCES TO AN ENTITY

As at 31 March 2004, the following trade receivables from a customer Group, which exceed 8% of the total assets value of the Group as of 31 December 2003, are required to be disclosed under the disclosure obligations under the rules 17.15, 17.17 and 17.22 of the GEM Listing Rules:

Name of customer	Balance of trade receivables as at 31 March 2004 <i>HK\$'000</i>	% to the total assets value as at 31 December 2003
Liteon Computer Tech (D.W.) Co., Ltd.	6,982	4.7%
Titanic Capital Services., Ltd.	26,553	17.7%
	33,535	22.4%

*Notes:*

1. The value of the Group's consolidated total assets as at 31 December 2003 was approximately HK\$150,007,000.
2. The above trade receivables were resulted from sales to the above customers by a subsidiary of the Group in its ordinary course of business and on normal commercial terms. These two customers are subsidiaries of Lite-On Technology Corporation (collectively, the Lite-On Group\*), which is a Taiwanese computer, communication and consumer products manufacturer. Lite-On Group is an independent third party, not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or their respectively associates (as such term is defined under GEM Listing Rules.)
3. The above trade receivables are unsecured and are in accordance with terms specified in the contracts governing the relevant transactions (such as delivery periods and payment periods (the above trade receivables are to be settled on or before 30 September 2004), rights and obligations of the above customers in respect of their performance under the contracts.) No collateral is required to be made by the above customers and no interest is charged on any of the trade receivables. The credit periods of the trade receivables of the Group range from 30 days to 180 days after monthly statement, depending on the relevant credit status of each credit customer and the commercial decisions made by the directors.

Save as disclosed above, as at 31 March 2004, there was no other advance (including trade receivables and other receivables), which would give rise to disclosure obligation pursuant to rules 17.15, 17.17 and 17.22 of GEM Listing Rules.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PERIOD IN REVIEW

#### Turnover and profit

The turnover of the Group for the three months ended 31 March 2004 ("the discussing period") maintained its momentum, which increased by 29.7% to HK\$56,368,000 as compared to the last corresponding period. Suffered from the rise in costs of major materials and the decrease in commission income, the net profit of the Group decreased to HK\$4,018,000.

The turnover to all regions except to The United States of America recorded satisfactory growth rates. The growth in turnover to Korea during the discussing period was especially encouraging, which recorded an increment of 208.6% as compared to the last corresponding period. Attributable to its high quality policy and persisting marketing efforts, the Group successfully gained a valuable Korean OEM customer in early 2003. It became one of the top five customers of the Group during the discussing period. The turnover to Japan increased by 49.8%. It was attributable to the Group's diligence in developing Japan retail distributor market.

During the discussing period, the global prices of metals and PVC persistently stayed at high levels, which pushed up the costs of the major materials of the Group. These increases in material costs could not be immediately reflected in the selling prices during the period. This adverse effect nearly offset all the contributions generated from the growth in turnover. The gross profit slightly increased to HK\$11,445,000 during the discussing period as compared to HK\$11,351,000 of the corresponding period.

In the last corresponding period, the Group earned a commission income of about HK\$1.7 million by lining up the mobile handset business between a leading Taiwan and a PRC corporation. Subsequent to the outbreak of SARS in last year, the mobile handset market in the PRC became highly volatile, which greatly compressed the room to develop our agency business. During the discussing period, the commission income of the Group was nominal.

#### Production capacity and capability

The Group acquired a land of 38,000 square metres with immediate available quarter premises of 10,000 square metres at Tangxia Town, Dongguan in the second half of last year. The land and the quarter premises are undergoing conveyance procedures. If everything is smooth, a new factory of floor area about 20,000 square metres will be constructed and completed at the end of this year. This will increase by double the production capacity of the Group.

#### Liquidity and financial resources

The financial position of the Group was strong. The Group has cash and bank balance of about HK\$55 million as of 31 March 2004. The Group had no interest bearing debt for the periods ended 31 March 2003 and 2004 respectively.



## OUTLOOK

The anticipating global demand in computers and computer peripheral products remains strong in the coming quarter. Under this favourable marketing environment and aided by the effective marketing strategy of the Group, the directors are optimistic as to its turnover in the coming quarter.

The Group is taking some measures to offset the downside effect arising from the increase in material costs. Some valuable customers have agreed to absorb the cost effect in the second quarter. On the other hand, by means of the Macro Economic Control Measures implemented by the PRC Government, the global prices of metals are restoring stability again. These changes are beneficial to the business as well as the profitability of the Group.

Looking ahead, the favourable factors such as the global economy regaining its growth momentum, the increasing in demand for digital transmissions and the ongoing integration of mobile communication products with computers and digital home appliances generate new business opportunities to the Group. To cope with the transformation in computer connectivity technology and to lead in the emerging marketing trend, the Group dedicates its effort to research and develop new products. Recently, the Group has completed the development of the connectivity products for High Definition Multimedia Interface ("HDMI"). HDMI will be widely used and dominant in the consumer electronics industry.

To prepare for the booming seasons, the Group is focusing its strength at its new factory construction project and is simultaneously continuing its effort at developing its new electronics business. These will promise a significant growth potential to the Group. To enhance its competing capabilities, the Group is implementing a series of restructuring and rationalization plans to strengthening its research and development capabilities, streamlining its workflows and upgrading its production efficiencies.

Summing all these, the Directors are optimistic to its business.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES**

As at 31 March 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company, pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, relating to the required standard of dealings by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

**(a) Ordinary shares of HK\$0.1 each of the Company**

Name of director	Name of company	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Pang Kuo-Shi ("Mr. Pang")	The Company	Family interest	139,808,000 (Note)	43.7%
Mr. Wong Chun ("Mr. Wong")	The Company	Beneficial owner	58,272,000	18.2%
Mr. Hsia Chieh-Wen ("Mr. Hsia")	The Company	Beneficial owner	34,944,000	10.9%

**(b) Share options**

Name of director	Capacity	Number of underlying shares to be issued upon exercise of the options
Mr. Pang	Beneficial owner	8,000,000
Mr. Wong	Beneficial owner	*9,050,000
Mr. Hsia	Beneficial owner	3,000,000
Mr. Wong Ngok Chung	Beneficial owner	3,000,000
		23,050,000

\* The number of options specified above includes a number of 3,050,000 granted to Mr. Wong's spouse, who is an employee of the Group.

*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, the Pang's Family Trust.

Other than as disclosed above, none of the directors and the chief executive, nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 March 2004.

### 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	Total number of grantees	Number of options granted on 13 December 2001	Exercised/ lapsed during the period	Number of options outstanding as at 31 March 2004	Exercise price HK\$	Exercisable period
Directors:						
Mr. Pang	8,000,000	8,000,000	—	8,000,000	0.3	30% in 13.12.2002 – 12.12.2006 30% in 13.12.2003 – 12.12.2006 40% in 13.12.2004 – 12.12.2006
Mr. Wong	6,000,000	6,000,000	—	6,000,000	0.3	30% in 13.12.2002 – 12.12.2006 30% in 13.12.2003 – 12.12.2006 40% in 13.12.2004 – 12.12.2006
Mr. Hsia	3,000,000	3,000,000	—	3,000,000	0.3	30% in 13.12.2002 – 12.12.2006 30% in 13.12.2003 – 12.12.2006 40% in 13.12.2004 – 12.12.2006

Categories of grantees	Total number of grantees	Number of options granted on 13 December 2001	Exercised/ lapsed during the period	Number of options outstanding as at 31 March 2004	Exercise price HK\$	Exercisable period
Directors:						
Mr. Wong Ngok Chung	3,000,000	3,000,000	—	3,000,000	0.3	30% in 13.12.2002 – 12.12.2006 30% in 13.12.2003 – 12.12.2006 40% in 13.12.2004 – 12.12.2006
Employees	12,000,000	12,000,000	—	12,000,000	0.3	30% in 13.12.2002 – 12.12.2006 30% in 13.12.2003 – 12.12.2006 40% in 13.12.2004 – 12.12.2006
Total	<u>32,000,000</u>	<u>32,000,000</u>	<u>—</u>	<u>32,000,000</u>		

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

### SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the section headed “Directors’ and Chief Executive’s Interests in Equity Securities” above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance disclosed no person as having a notifiable interest or short position in the issued share capital of the Company as at 31 March 2004.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### SPONSOR’S INTERESTS

As at 31 March 2004, neither Kingston Corporate Finance Limited (the “Sponsor”), or 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 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the Rules Governing the Listing of Securities on the GEM.

### INTERESTS IN COMPETITORS

During the three months ended 31 March 2004, none of the directors or 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.

### AUDIT COMMITTEE

The audit committee of the Company 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 2004.

On behalf of the Board

**Pang Kuo-Shi**

*Chairman*

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

13 May 2004