



GLORY MARK HI-TECH (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2004



Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2004, together with the comparative unaudited figures for the corresponding periods in 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS – UNAUDITED

For the three months and nine months ended 30 September 2004

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	3	66,933	48,461	185,598	135,799
Cost of sales		(53,748)	(37,133)	(151,517)	(102,170)
Gross profit		13,185	11,328	34,081	33,629
Other operating income		542	1,288	2,530	6,168
Selling and distribution expenses		(2,138)	(1,996)	(6,045)	(5,064)
Administrative expenses		(5,371)	(6,242)	(17,015)	(17,619)
Profit from operations	5	6,218	4,378	13,551	17,114
Loss on disposal of an associate	6	(670)	—	(670)	—
Share of result of an associate	6	—	—	47	(72)
Profit before taxation		5,548	4,378	12,928	17,042
Taxation	7	(431)	(439)	(1,381)	(1,141)
Profit for the period		5,117	3,939	11,547	15,901
Dividend	8	—	—	—	1,920
Earnings per share	9				
Basic		HK1.60 cents	HK1.23 cents	HK3.61 cents	HK4.97 cents
Diluted		N/A	N/A	N/A	N/A

Notes:

1. GENERAL AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 13 September 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 consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 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") and with accounting principles generally accepted in Hong Kong and complied with accounting standards issued by Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 2004 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual 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 sales 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 businesses to OEM customers and retail distributors are the basis on which the Group reports its primary segment information.

4. SEGMENT INFORMATION *(Continued)***Business segments**

	Three months ended 30 September				Nine months ended 30 September			
	2004		2003		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
OEM customers	45,115	67.4%	35,843	74.0%	126,671	68.3%	96,231	70.9%
Retail distributors	21,818	32.6%	12,618	26.0%	58,927	31.7%	39,568	29.1%
	66,933	100.0%	48,461	100.0%	185,598	100.0%	135,799	100.0%

Geographical segments

Sales analysis by geographical customer market:

	Three months ended 30 September				Nine months ended 30 September			
	2004		2003		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Taiwan	32,863	49.1%	22,923	47.3%	90,470	48.8%	63,597	46.8%
Japan	14,679	21.9%	8,637	17.8%	39,864	21.5%	26,103	19.2%
USA	8,473	12.7%	4,812	9.9%	20,668	11.1%	18,951	14.0%
Korea	6,850	10.2%	7,674	15.9%	18,941	10.2%	14,599	10.8%
Others	4,068	6.1%	4,415	9.1%	15,655	8.4%	12,549	9.2%
	66,933	100.0%	48,461	100.0%	185,598	100.0%	135,799	100.0%

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation and amortisation	1,238	957	3,149	2,545

6. LOSS ON DISPOSAL OF AN ASSOCIATE AND SHARE OF RESULT OF AN ASSOCIATE

The share of result of an associate represented the result of Feng Hua Advanced Technology (HK) Limited ("Feng Hua"). In August 2004, the Group realised the entire interest in Feng Hua, for consideration of HK\$647,000 at a loss of HK\$670,000.

7. 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 condensed consolidated 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 condensed consolidated financial statements, as there were no material timing differences arising during the period and at the balance sheet date.

8. DIVIDEND

	Three months ended 30 September		Nine months ended 30 September	
	2004 <i>HK\$'000</i> (Unaudited)	2003 <i>HK\$'000</i> (Unaudited)	2004 <i>HK\$'000</i> (Unaudited)	2003 <i>HK\$'000</i> (Unaudited)
Interim dividend	—	—	—	1,920

The Directors do not recommend the payment of any dividend for the three months ended 30 September 2004 (three months ended 30 September 2003: nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and nine months ended 30 September 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$5,117,000 and HK\$11,547,000 respectively (three months and nine months ended 30 September 2003: HK\$3,939,000 and HK\$15,901,000 respectively) and on the weighted average number of 320,000,000 shares (2003: 320,000,000 shares).

9. EARNINGS PER SHARE *(Continued)*

No dilutive earnings per share has been presented for the three months and nine months ended 30 September 2004 because the exercise price of the Company's share options was higher than the average closed market price for shares in both periods.

10. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	Three months ended 30 September		Nine months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Glory Mark Enterprises Limited ("GM Enterprises")	Rentals paid <i>(Note b)</i>	63	63	189	237
Glory Mark Electronic Limited (incorporated in Taiwan) ("GM Taiwan")	Rental paid <i>(Note b)</i>	34	34	104	101
San Chen Company ("San Chen")	Rental paid <i>(Note b)</i>	34	34	104	101
C&C Technic Taiwan Co., Ltd. ("C&C")	Sales of goods <i>(Note a)</i>	—	—	—	69
	Purchases of goods <i>(Note b)</i>	—	22	—	890

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 with reference to the marketable rates.

Mr. Steve Pang Kuo-Shi ("Mr. Pang"), Mr. Wong Chun and Mr. Hsia Chieh-Wen, 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 held 11.67% interest in C&C and had disposed of all her interest since January 2004.

11. ADVANCES TO ENTITIES

At 30 September 2004, the following trade receivables, which, in aggregate, exceed 8% of the total assets of the Group at 30 June 2004, are disclosed pursuant to the disclosure requirements under rules 17.15, 17.17 and 17.22 of the GEM Listing Rules:

Name of customer	Balance of trade receivables at 30 September 2004 <i>HK\$'000</i> (Unaudited)	% to the total assets value at 30 June 2004
Titanic Capital Services., Ltd.	25,627	14.8%
Liteon Computer Tech (D.W.) Co., Ltd.	4,555	2.6%
LET (HK) Ltd.	1,155	0.7%
	<hr/> 31,337 <hr/>	18.1%

Notes:

1. The Group's consolidated total assets at 30 June 2004, as published in the Interim Report 2004, amounted to approximately HK\$173,156,000.
2. The above trade receivables were resulted from sales by a subsidiary of the Company in its ordinary course of business and on normal commercial terms. The above three customers are subsidiaries of Lite-On Technology Corporation (collectively referred to as "Lite-On Group"), which is a computer, communication and consumer products manufacturer in Taiwan. Lite-On Group is not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or their respective associates (as 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 31 March 2005), 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 depending on the relevant credit status of each customer and the commercial decisions made by the directors.

11. ADVANCES TO ENTITIES *(Continued)*

Save as disclosed above, at 30 September 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 the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Period in Review

Turnover and profit

During the nine months ended 30 September 2004 (the “discussing period”), the turnover of the Group was HK\$185,598,000, increased by 36.7% as compared to the previous corresponding period. Suffered from the decrease in commission income, the net profit of the Group decreased to HK\$11,547,000.

Sales to OEM customers and retail distributors were HK\$126,671,000 and HK\$58,927,000 respectively, up 31.6% and 48.9% respectively as compared to the previous corresponding period.

In terms of geographical segments, the turnover to all regions increased as compared to the previous corresponding period. The growths in turnover to Taiwan and Japan during the discussing period were especially encouraging, which recorded increments of 42.3% and 52.7% respectively as compared to the previous corresponding period. This satisfactory result was mainly attributable by the successful development of a new valuable Taiwanese OEM customer and the expansion of business relationship with a Taiwanese OEM customer, a Taiwanese and a Japanese retail distributor.

The gross margin was 18.4%, dropped by 6.4% as compared to the previous corresponding period. It was mainly due to the increase in major material costs. During the discussing period, the global prices of copper and PVC persistently stayed at high levels, which inevitably pushed up the overall material cost ratio of the Group. In order to deal with this severe situation, the Group had implemented a series of actions including improving its manufacturing efficiency and sharing the burden with some of the customers and suppliers. The position improved in the third quarter.

Turnover and profit (Continued)

In the last corresponding period, the Group earned a commission income of about HK\$4.8 million by lining up the mobile handset business between a leading Taiwan and a PRC corporation. Subsequent to the outbreak of SARS in the last year, the mobile handset business 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.

Liquidity and financial resources

The financial position of the Group was strong. The Group has cash and bank balances of about HK\$43 million as of 30 September 2004. The Group had no interest bearing debt for the periods ended 30 September 2003 and 2004 respectively.

OUTLOOK

The continuing recovery of global economy and the increase in demand for digital transmissions and the ongoing integration of mobile communication products with computers and digital home appliances helped to boom the turnover of the Group.

The directors anticipated that the integration of mobile communication products with computers and digital home appliances would become a global trend. It provides a good business opportunity to the Group. To prepare for this opportunity, the Group is combining and exploiting its resources to establish its superiority. This includes enhancing the capabilities of product development and outlook design of new electronics products by strengthening the research and development team in Taiwan, increasing its production capacity by speeding up its new factory construction project in the PRC and improving its overall operating efficiencies by reengineering its operating work flows throughout its Taiwan, Hong Kong and the PRC operations.

The endeavor of the Group demonstrated an initial achievement. In the Hong Kong Electronics Fair 2004 (Autumn Edition), the USB 5.1 Audio product designed by our new Taiwan research and development team gained a Silver Award in the category of Audio/Video granted by The Hong Kong Electronic Industries Association.

By the direction and efforts of enhancing its products research capabilities, expanding its production facilities and improving its operating cost efficiencies, aided by the powerful marketing team of Taiwan Branch, the directors believe that this will be beneficial to the Group to achieve a better result.

Summarising all these, the directors are optimistic to the prospect of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the interests of the directors, the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance, or as otherwise notified to the Company and the minimum standards of dealing by directors as referred to Rule 5.46 of the GEM Listing Rules operated by the Stock Exchange, were as follows:

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

Name of director	Capacity	Number of Issued Ordinary Shares held	Percentage of Issued share capital of the Company
Mr. Pang Kuo-Shi ("Mr. Pang")	Held by family trust (Note 1)	139,808,000	43.7%
Mr. Wong Chun ("Mr. Wong")	Beneficial owner	58,272,000	18.2%
Mr. Hsia Chieh-Wen ("Mr. Hsia")	Beneficial owner	34,944,000	10.9%
		233,024,000	72.8%

(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 Family (<i>Note 2</i>)	6,000,000 3,050,000
Mr. Hsia	Beneficial owner	3,000,000
Mr. Wong Ngok Chung	Beneficial owner	3,000,000
		23,050,000

Notes:

- (1) 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.
- (2) The 3,050,000 underlying shares subject to the options were granted to Mr. Wong's spouse, who is an employee of the Group.

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 at 30 September 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 at 30 September 2004 and 1 January 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
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	32,000,000	32,000,000	—	32,000,000		

No share option 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 Shares and Underlying Shares" above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance discloses no person as having a notifiable interest or short position in the issued share capital of the Company at 30 September 2004.

SPONSOR'S INTERESTS

As at 30 September 2004, 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, nor 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 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the reporting period.

INTERESTS IN COMPETITORS

During the nine months ended 30 September 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.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 10 above:

- (i) there were no transactions, which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules of the Stock Exchange; 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 of the Company comprises three members, Mr. Lau Ho Kit, Ivan, Dr. Hon. Lui Ming Wah, JP and Mr. Wong Kwong Chi, 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. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

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 30 September 2004.

On behalf of the Board

Pang Kuo-Shi

Chairman

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

11 November 2004