



GLORY MARK HI-TECH (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code : 8159)



FIRST QUARTERLY REPORT 2006

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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 (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (the “Directors”) 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 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 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the three months ended 31 March 2006

		Three months ended 31 March	
		2006	2005
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	81,622	63,338
Cost of sales		(68,708)	(52,829)
Gross profit		12,914	10,509
Other income		883	689
Selling and distribution expenses		(2,923)	(2,602)
Administrative expenses		(5,863)	(5,900)
Profit from operations	5	5,011	2,696
Taxation	6	(619)	(678)
Profit for the period		4,392	2,018
Dividend	7	—	—
Earnings per share	8		
Basic		HK1.37 cents	HK0.63 cents

Notes :

1. General and Basis of Presentation

The Company was incorporated in the Cayman Islands 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 unaudited quarterly consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

2. Principal Accounting Policies

The unaudited quarterly consolidated financial statements have been prepared under the historical cost convention except for investment properties, which are measured at fair value. 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 2005.

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 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 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.

Business segments

	Three months ended 31 March			
	2006		2005	
	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)	
OEM customers	55,987	68.6%	47,762	75.4%
Retail distributors	25,635	31.4%	15,576	24.6%
	81,622	100.0%	63,338	100.0%

4. Segment Information *(Continued)***Geographical segments**

Sales analysis by geographical customer market:

	Three months ended 31 March 2006		2005	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Taiwan	27,518	33.7%	20,899	33.0%
Korea	13,632	16.7%	17,782	28.1%
Japan	20,386	25.0%	10,762	17.0%
The United States of America (the "USA")	13,019	15.9%	7,782	12.3%
Others	7,067	8.7%	6,113	9.6%
	81,622	100.0%	63,338	100.0%

5. Profit from Operations

Profit from operations has been arrived at after charging

	Three months ended 31 March	
	2006	2005
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Depreciation and amortisation	1,272	1,317

6. Taxation

The taxation provided represents the People's Republic of China ("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.

7. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (three months ended 31 March 2005 — nil).

8. Earnings Per Share

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the consolidated profit attributable to shareholders of approximately HK\$4,392,000 (three months ended 31 March 2005 — HK\$2,018,000) and on the weighted average number of 320,000,000 shares (2005 — 320,000,000 shares).

No dilutive earnings per share have been presented for the three months ended 31 March 2006 because the exercise price of the Company's share options was higher than the average closing market price for shares for the period.

9. 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 31 March	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Glory Mark Enterprises Limited ("GM Enterprises")	Rental paid (<i>Note a</i>)	63	63
Glory Mark Electronic Limited (incorporated in Taiwan) ("GM Taiwan")	Rental paid (<i>Note a</i>)	37	37
San Chen Company ("San Chen")	Rental paid (<i>Note a</i>)	37	37
Directors	Remuneration	1,394	1,394

Note:

- (a) These transactions were based on amounts agreed between the parties concerned.

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 100% interest in GM Enterprises and 79% interest in GM (Taiwan). Mr. Pang holds 40% interest in San Chen.

10. Reserves

There were no movements in reserves of the Group during the three months ended 31 March 2006 other than profit attributable to shareholders of approximately HK\$4,392,000 (three months ended 31 March 2005 — approximately HK\$2,018,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Period in Review

Turnover and profit

The turnover of the Group for the three months ended 31 March 2006 (“the period under review”) was approximately HK\$81.6 million (three months ended 31 March 2005 — approximately HK\$63.3 million), representing a growth of approximately 28.9%.

The turnover to OEM customers and retail distributors during the period under review increased by 17.2% and 64.6% respectively as compared to the corresponding previous period. During the period under review, the Group succeeded in creating businesses with several new Japan retail distributors customers.

The turnover to Taiwan, Japan, U.S.A. and others region increased by 31.7%, 89.4%, 67.3% and 15.6% respectively as compared to the corresponding previous period. The turnover to Korea dropped by 23.3%.

The gross profit and gross profit margin of the Group for the period under review were approximately HK\$12.9 million and 15.8% respectively (three months ended 31 March 2005 — approximately HK\$10.5 million and 16.6% respectively). During the period under review, the unfavourable factors such as soaring material costs and substantial increase in labour rates continued affecting the Group. The increase in gross profit was mainly attributable to increase in turnover.

The net profit of the Group for the period under review was approximately HK\$4.4 million (three months ended 31 March 2005 — HK\$2.0 million). The increase in net profit of the Group was mainly attributable to, other than the increase in turnover, the improvement in operating efficiency and stringent cost control.

Production capacity and capability

The interior decoration of the new factory at Tangxia Town will be completed in middle of this year. The production capacity of the Group will be doubled after its commencing operation. To cope with the anticipated development and to reduce the production costs of the Group, the construction work of the new factory at Fogang will start in June this year and is expected to be completed in early 2007. The Group will finance all these investments by its internal resources and realises that this will not affect its liquidity position.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Period in Review *(Continued)*

Liquidity and financial resources

As at 31 March 2006, the Group's net current assets, cash and bank balances and shareholders' funds amounted to approximately HK\$70.0 million, HK\$64.9 million and HK\$117.2 million respectively (three months ended 31 March 2005 — HK\$65.3 million, HK\$75.9 million and HK\$97.8 million respectively). The current ratio, expressed at current assets over current liabilities, was 1.63 (three months ended 31 March 2005 — 1.69). The Group had no interest bearing borrowing at 31 March 2006 and 31 March 2005 respectively.

Outlook

The soaring of the prices of materials especially copper, the substantial increase in labour rate in the PRC and the threat of appreciation of Renminbi continue to be big challenges to the Group. In view of the magnitudes of these adverse effects, the Group is unlikely to wholly eliminate these influences by enhancing its operating efficiencies or sharing the increased costs with our customers. This external economic environment will inevitably affect the gross profit margin percentage of the Group in coming quarters.

At the end of 2005, the Group rented a small factory in Fogang and started to shift some manufacturing processes there. This operation is proved to be successfully. The good operating efficiencies and comparatively lower operating costs there will help to lower the overall operating costs of the Group. The Group plans to progressively shift the labour-intensive manufacturing processes to Fogang. To tally with this cost reduction scheme, the Group will, as the first phase of development, construct a single-storeyed factory premise of approximately 10,000 square metres in Fogang. The construction work will start in June.

The new factory in Tangxia will soon commence operation. Contrary to the low cost policy in Fogang, this modern designed factory in Tangxia will be used to attract global quality customers and for the manufacture of high value-added products. The Directors anticipated that this balanced development policy will generate business opportunities to the Group.

Looking ahead, the Directors have a conservative but optimistic view to the results of the Group in the coming quarters.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31 March 2006, the interests and short positions of the directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed companies as referred to Rules 5.46 of the GEM Listing Rules 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	43.69%
Mr. Wong Chun ("Mr. Wong")	Beneficial owner	58,447,000	18.26%
Mr. Hsia Chieh-Wen ("Mr. Hsia")	Beneficial owner	34,944,000	10.92%
		233,199,000	72.87%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

(Continued)

(b) Share options

Name of director	Capacity	Number of share options held	Number of underlying shares to be issued upon exercise of the options
Mr. Pang	Beneficial owner	8,000,000	8,000,000
Mr. Wong	Beneficial owner	6,000,000	6,000,000
	Family (Note 2)	3,050,000	3,050,000
Mr. Hsia	Beneficial owner	3,000,000	3,000,000
Mr. Wong Ngok Chung	Beneficial owner	3,000,000	3,000,000
		23,050,000	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, underlying shares or debenture of the Company or any of its associated corporations at 31 March 2006.

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 of the Company 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:

Directors/ employees	Number of shares to be issued upon exercise of the options	Outstanding at 1.1.2006	Exercised/ lapsed during the period	Number of options outstanding at 31.3.2006	Subscription price HK\$	Number of shares to be issued upon exercise of the options and their exercisable period	
Mr. Pang	8,000,000	8,000,000	—	8,000,000	0.3	2,400,000	13.12.2002 — 12.12.2006
						2,400,000	13.12.2003 — 12.12.2006
						3,200,000	13.12.2004 — 12.12.2006
Mr. Wong	6,000,000	6,000,000	—	6,000,000	0.3	1,800,000	13.12.2002 — 12.12.2006
						1,800,000	13.12.2003 — 12.12.2006
						2,400,000	13.12.2004 — 12.12.2006
Mr. Hsia	3,000,000	3,000,000	—	3,000,000	0.3	900,000	13.12.2002 — 12.12.2006
						900,000	13.12.2003 — 12.12.2006
						1,200,000	13.12.2004 — 12.12.2006
Mr. Wong Ngok Chung	3,000,000	3,000,000	—	3,000,000	0.3	900,000	13.12.2002 — 12.12.2006
						900,000	13.12.2003 — 12.12.2006
						1,200,000	13.12.2004 — 12.12.2006
	20,000,000	20,000,000	—	20,000,000			
Employees	12,000,000	9,050,000	—	9,050,000	0.3	2,715,000	13.12.2002 — 12.12.2006
						2,715,000	13.12.2003 — 12.12.2006
						3,620,000	13.12.2004 — 12.12.2006
Total	32,000,000	29,050,000	—	29,050,000			

No share options were granted or exercised during the period.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the section headed “Directors’ and Chief Executive’s Interests and Short Position in Shares, Underlying Shares and Debentures” 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 31 March 2006.

COMPLIANCE WITH GEM LISTING RULES 5.48 TO 5.67

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Directors, upon specific enquiry being made, confirm that during the three months ended 31 March 2006, they have complied with the required standards of dealings and the Company’s code of conduct regarding directors’ securities transactions.

INTERESTS IN COMPETITORS

During the three months ended 31 March 2006, 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 9 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 or at any time during the period under review.

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 first quarterly results presented herein has not been audited but has been reviewed by the Audit Committee who 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 31 March 2006.

On behalf of the Board

Pang Kuo-Shi

Chairman

Hong Kong Special Administrative Region of the PRC
11 May 2006

As at the date of this report, the board of Directors comprises Messrs. Pang Kuo-Shi also known as Steve Pang, Wong Chun, Hsia Chieh-Wen also known as Paul Hsia and Wong Ngok Chung being Executive Directors and Dr. Hon. Lui Ming Wah, JP, Mr. Lau Ho Kit, Ivan and Mr. Wong Kwong Chi being Independent Non-Executive Directors.