



GLORY MARK HI-TECH (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8159)



INTERIM 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 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.

Interim Results

The board of directors (the “Directors”) of Glory Mark Hi-Tech (Holdings) Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months (the “Second Quarterly Period”) and six months (the “Half-Yearly Period”) ended 30 June 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

Condensed Consolidated Income Statements

For the three months and six months ended 30 June 2006

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	3	87,949	57,746	169,571	121,084
Cost of sales		(75,244)	(47,677)	(143,952)	(100,506)
Gross profit		12,705	10,069	25,619	20,578
Other operating income		1,046	1,124	1,929	1,813
Selling and distribution expenses		(2,055)	(2,334)	(4,978)	(4,936)
Administrative expenses		(6,659)	(5,823)	(12,522)	(11,723)
Bank overdraft interest		(1)	—	(1)	—
Profit before taxation	5	5,036	3,036	10,047	5,732
Taxation	6	(575)	(518)	(1,194)	(1,196)
Profit for the period		4,461	2,518	8,853	4,536
Dividend	7	4,800	4,800	4,800	4,800
Earnings per share					
Basic	8	HK1.39 cents	HK0.79 cents	HK2.77 cents	HK1.42 cents

Condensed Consolidated Balance Sheet

As at 30 June 2006

	Notes	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	46,672	35,399
Prepaid lease payments		1,335	3,742
Investment properties	9	2,340	2,340
Deposit for land use right		2,986	3,391
Club debenture	10	560	560
		53,893	45,432
CURRENT ASSETS			
Inventories		28,062	34,393
Trade and other receivables	11	83,445	73,912
Bank balances and cash		50,161	67,255
		161,668	175,560
CURRENT LIABILITIES			
Trade and other payables	12	87,290	97,096
Amount due to a related company		—	21
Amounts due to directors		169	1,338
Taxation payable		10,650	9,457
Bank overdrafts — unsecured		—	369
		98,109	108,281
NET CURRENT ASSETS			
		63,559	67,279
		117,452	112,711
CAPITAL AND RESERVES			
Share capital		32,000	32,000
Reserves		85,452	80,711
		117,452	112,711

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Share Capital <i>HK\$'000</i> (Unaudited)	Merger Reserve <i>HK\$'000</i> (Unaudited)	Translation Reserve <i>HK\$'000</i> (Unaudited)	Accumulated Profits <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
At 1 January 2005	32,000	680	11	63,142	95,833
Exchange loss on translation of overseas operations not recognised in the income statement	—	—	(49)	—	(49)
Profit for the period	—	—	—	4,536	4,536
Final dividend for 2004	—	—	—	(4,800)	(4,800)
At 30 June 2005	32,000	680	(38)	62,878	95,520
At 1 January 2006	32,000	680	398	79,633	112,711
Exchange gain on translation of overseas operations not recognised in the income statement	—	—	688	—	688
Profit for the period	—	—	—	8,853	8,853
Final dividend for 2005	—	—	—	(4,800)	(4,800)
At 30 June 2006	32,000	680	1,086	83,686	117,452

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(394)	(12,415)
NET CASH USED IN INVESTING ACTIVITIES	(11,050)	(17,890)
NET CASH USED IN FINANCING ACTIVITIES	(5,969)	(4,801)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,413)	(35,106)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	66,886	83,548
EFFECT OF FOREIGN EXCHANGE RATE CHANGE	688	(49)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	50,161	48,393
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	50,161	48,393

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 half-yearly 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") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 half-yearly 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 2005.

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 under review.

4. Segment Information

The Group is principally engaged in the design, development, manufacture and sales 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 with 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 June		Six months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover				
OEM customers	65,182	38,248	121,169	86,010
Retail distributors	22,767	19,498	48,402	35,074
	87,949	57,746	169,571	121,084
Results				
OEM customers	8,511	6,260	16,237	13,226
Retail distributors	4,194	3,809	9,382	7,352
	12,705	10,069	25,619	20,578
Unallocated income	1,046	1,124	1,929	1,813
Unallocated expenses	(8,715)	(8,157)	(17,501)	(16,659)
Profit from operations	5,036	3,036	10,047	5,732

Geographical segments

Sales analysis by geographical customer market:

	Three months ended 30 June				Six months ended 30 June			
	2006 HK\$'000 (Unaudited)	%	2005 HK\$'000 (Unaudited)	%	2006 HK\$'000 (Unaudited)	%	2005 HK\$'000 (Unaudited)	%
Taiwan	31,861	36.2	15,695	27.2	59,379	35.0	36,594	30.2
Korea	13,489	15.3	15,121	26.2	27,121	16.0	32,903	27.2
Japan	21,163	24.1	13,885	24.0	41,549	24.5	24,647	20.3
United States of America ("USA")	13,961	15.9	7,213	12.5	26,980	15.9	14,995	12.4
Others	7,475	8.5	5,832	10.1	14,542	8.6	11,945	9.9
	87,949	100.0	57,746	100.0	169,571	100.0	121,084	100.0

5. Profit from Operations

Profit from operations has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Depreciation and amortisation	1,034	1,035	2,306	2,352
Loss on disposal of property, plant and equipment	196	—	196	—

6. Taxation

The amount represents current tax charge on assessable profit arising in jurisdiction other than Hong Kong and is calculated at the rates prevailing in the relevant jurisdiction.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements, as the Group has no assessable profit arising in Hong Kong in both periods.

No provision for deferred taxation has been made in the condensed consolidated financial statements, as it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

7. Dividend

During the period, a dividend of HK1.5 cents per share (2005: HK1.5 cents) was paid to shareholders as the final dividend for 2005.

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: nil).

8. Earnings Per Share

The calculation of basic earnings per share for the three months and six months ended 30 June 2006 is based on the consolidated profit attributable to shareholders of approximately HK\$4,461,000 and HK\$8,853,000 respectively (three months and six months ended 30 June 2005: HK\$2,518,000 and HK\$4,536,000 respectively) and on the number of 320,000,000 shares (2005: 320,000,000 shares) in issue.

No dilutive earnings per share has been presented for the Second Quarterly Period and Half-Yearly Period because the exercise price of the Company's share options was higher than the average market price for shares in the respective periods.

9. Property, Plant and Equipment, and Investment Properties

During the period, the Group acquired property, plant and equipment at a total cost of approximately HK\$11,179,000.

The investment properties were valued at HK\$2,340,000 on 31 December 2005 by DTZ Debenham Tie Leung Limited, an independent registered professional surveyor, on an open market existing use basis. The Directors consider that the fair value of the investment properties at 30 June 2006 was not significantly different from their carrying value at 31 December 2005.

10. Club Debenture

The club debenture represents entrance fee paid to a golf club held on a long-term basis. The directors of the Group are of the opinion that the underlying value of the club debenture is at least equal to its cost.

11. Trade and Other Receivables

The Group allows an average credit period ranging from 30 days to 180 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 30 days	29,101	41,163
From 31 days to 120 days	43,087	27,039
From 121 days to 180 days	1,642	142
Over 180 days	1,553	124
	75,383	68,468
Other receivables	8,062	5,444
	83,445	73,912

12. Trade and Other Payables

The Group has been granted an average credit period ranging from 30 days to 150 days from its trade suppliers.

The following is an aged analysis of trade payables at the reporting date:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 30 days	18,106	19,953
From 31 days to 90 days	33,557	41,693
From 91 days to 150 days	17,746	16,960
Over 150 days	4,215	1,947
	73,624	80,553
Other payables	13,666	16,543
	87,290	97,096

13. 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 June		Six months ended 30 June	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Glory Mark Enterprises Limited ("GM Enterprises")	Rentals paid	63	63	126	126
Glory Mark Electronic Limited (incorporated in Taiwan) ("GM Taiwan")	Rental paid	37	37	74	74
San Chen Company ("San Chen")	Rental paid	37	37	74	74
Directors	Remuneration	1,392	1,392	2,786	2,786

Mr. Pang Kuo-Shi, Steve ("Mr. Pang"), Mr. Wong Chun and Mr. Hsia Chieh-Wen, directors and 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.

Management Discussion and Analysis

Financial Review

Turnover and profit

The Group recorded a turnover of HK\$169,571,000 for the six months ended 30 June 2006 ("the period under review"), up 40.0% as compared to the corresponding period last year.

The turnover to OEM customers and retail distributors during the period under review increased by 40.9% and 38.0% respectively as compared to the corresponding previous period.

The turnover to Taiwan, Japan, U.S.A. and other regions increased by 62.3%, 68.6%, 79.9% and 21.7% respectively as compared to the corresponding previous period. The turnover to Korea decreased by 17.6%.

The unfavourable factors such as high material costs and increasing labour rates continued to affected the Group during the period under review. The Net profit of the Group for the period under review was approximately HK\$8,853,000.

Liquidity and financial resources

As at 30 June 2006, the Group's net current assets, cash and bank balances and shareholders' funds amounted to approximately HK\$63.6 million, HK\$50.2 million and HK\$117.5 million (31 December 2005: HK\$67.3 million, HK\$67.3 million and HK\$112.7 million) respectively. The current ratio, expressed as current assets over current liabilities, was maintained at the satisfactory level of 1.65 (31 December 2005: 1.62). The Group had no interest bearing debt at 30 June 2006 (31 December 2005: an unsecured bank overdraft of approximately HK\$0.4 million).

Management Discussion and Analysis *(continued)*

Operation review

Production capacity and capability

The new factory located at Tangxia Town has commenced operation. The construction work of the new factory of floor area about 20,000 square metres located at Fogang has started and shall be completed in the first half of 2007. The Group will finance these development projects by its internal resources, which will not affect the liquidity of the Group.

Employees

At 30 June 2006, the Group had 2,498 (2005: 2,081) employees. Employee remuneration, excluding directors' emoluments, for the six months period ended 30 June 2006 was approximately HK\$18.9 million (2005: HK\$16.4 million). The increase in employee remuneration during the period under review was in line with the expansion of the Group.

The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems, which is reviewed annually. The Company had granted options to its employees prior to its listing.

Outlook

It is anticipated that the high material and labour costs would continue to affect the Group in the coming quarters. The directors maintain a conservative view to its results in the coming quarters in consideration of these cost factors.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2006, the interests and short positions of the directors, the chief executive and their associates in the shares, underlying shares and debenture 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 standard of dealings by directors of listed companies as referred to in Rule 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%

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

(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
	Held by spouse (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. The 139,808,000 shares were held by Modern Wealth Assets Limited. Modern Wealth Assets Limited, 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 Family Trust.
2. Mr. Wong is deemed to be interested in the options to acquire shares of the Company, being the interests held beneficially by his spouse, who is an employee of a subsidiary of the Company.

Other than as disclosed above, none of the directors or 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 June 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 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 1 January 2006	Exercised/ lapsed during the period	Number of options outstanding at 30 June 2006	Subscription 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
	20,000,000	20,000,000	—	20,000,000		
Employees	12,000,000	9,050,000	—	9,050,000	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	29,050,000	—	29,050,000		

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

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 Futures Ordinance discloses no person having a notifiable interests or short positions in the issued share capital of the Company at 30 June 2006.

Compliance with GEM Listing Rules 5.48 to 5.67

The Company has adopted a code of conduct regarding directors' securities transactions on term 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 six months ended 30 June 2006, they have complied with the required standards of dealings and the Company's code of conduct regarding directors' securities transactions.

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.

Interests in Competitors

During the six months period ended 30 June 2006, none of the directors or the management shareholders of the Company or their respective associates had an interest in a business, which competes or may compete with the business of the Group.

Connected Transactions and Directors' Interests in Contracts

Saved as disclosed in note 13 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.

Corporate Governance

The Company has complied throughout the six months ended 30 June 2006 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, save for code provision A.4.1 which provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive directors of the Company are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of non-executive Directors have given the Company's shareholders the right to approve continuation of non-executive Directors' offices.

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 interim results presented herein have not been audited but have been reviewed by the Audit Committee which 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 six months ended 30 June 2006.

On behalf of the Board

Pang Kuo-Shi

Chairman

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

14 August 2006

As at the date of this report, the board 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. Wong Kwong Chi and Mr. Lau Ho Kit, Ivan being Independent Non-Executive Directors.