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DIGITAL MANUFACTURING HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

<http://www.smartechdigital.com>

Third Quarterly Report 2000

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "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 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 of Hong Kong Limited 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 however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of SMARTECH DIGITAL MANUFACTURING HOLDINGS LIMITED 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 of Hong Kong Limited for the purpose of giving information with regard to SMARTECH DIGITAL MANUFACTURING HOLDINGS LIMITED. 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.

HIGHLIGHTS

Achieved an unaudited net profit attributable to shareholders for the nine-month period ended 30th September 2000 of HK\$10,043,000, representing a basic earnings per share of 5.74 cents.

BUSINESS REVIEW

During the three months ended 30th September 2000, Smartech Digital Manufacturing Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was dedicated to strengthen its core business. The Group believed that placing significant focus on product design is the key to success in molding industry. With its wide knowledge on different industries and sound foundation in software application, the Group made every effort in developing different design software and products. In order to streamline the production line and meet with the ever-growing business, approximately HK\$2,000,000 of listing proceeds has been used to install advanced machinery and HK\$1,000,000 has been used to upgrade the application softwares. Unaudited net profit attributable to shareholders was HK\$3,039,000 for the three months ended 30th September 2000 and HK\$10,043,000 for the nine months ended 30th September 2000 while unaudited basic earnings per share for the Group was 1.52 cents for the three months ended 30th September 2000 and 5.74 cents for the nine months ended 30th September 2000. The cash on hand as at 30th September 2000 was HK\$27,596,000.

On the other hand, the Group's unaudited turnover for this period under review was approximately HK\$21,993,000 for the three months ended 30th September 2000 and HK\$71,458,000 for the nine months ended 30th September 2000, representing a decrease of 29% and 18% respectively when compared with the same periods in 1999. The decrease in turnover is partly due to the increase in plastic material cost during the three months and the nine months ended 30th September 2000 which affected the order received and partly due to the adoption of a more selective policy in granting credit to customers. The decrease in profit for the three months and the nine months ended 30th September 2000 when compared to the same periods in 1999 is mainly attributed to the increases in plastic material costs and in the Group's overhead as various expansion plans are putting forward.

With its efforts in strengthening its marketing teams in both overseas and the Mainland China, not only committed orders from the Mainland China have increased, but the orders continued to increase in Australia and New Zealand. Apart from the sales office in Canada, those in Shanghai and Beijing were newly opened in September, which were expected to further strengthen the Group's geographical presence and after-sales technical support.

Collaborated with a high-tech company in Taiwan, Home Solutions Inc, the Group had developed a new information appliance, Qmaster, which combined the advantages of computers and telephones; and was tailor-made to those not familiar in using computers. The response towards the QMaster has been very positive since its first launch in the Taiwan market. QMaster is also expected to be launched in Hong Kong, Guangzhou, Shanghai and Beijing later in this year. Therefore, the Group is already in discussion with some potential partners about the introduction of the product.

RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Group for the three months and the nine months ended 30th September 2000 together with the comparative unaudited combined figures for the corresponding periods in 1999 as follows:

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2000	1999	2000	1999
		<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000
Turnover	(2)	21,993	31,079	71,458	87,068
Cost of sales		(11,340)	(17,610)	(35,341)	(46,595)
Gross profit		10,653	13,469	36,117	40,473
Other revenue		2,783	1,221	3,316	1,978
Distribution costs		(275)	(120)	(849)	(1,260)
Administrative expenses		(6,790)	(5,548)	(18,710)	(15,508)
Other operating expenses		(1,567)	(1,576)	(5,639)	(4,879)

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2000	1999	2000	1999
		<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000
Profit from operating activities		4,804	7,446	14,235	20,804
Finance costs		(640)	(461)	(1,623)	(1,916)
Profit before tax		4,164	6,985	12,612	18,888
Tax	(3)	(1,139)	(1,279)	(2,495)	(3,569)
Profit before minority interests		3,025	5,706	10,117	15,319
Loss/(profit) attributable to minority interests		14	(11)	(74)	(18)
Profit attributable to shareholders		3,039	5,695	10,043	15,301
Basic earnings per Share	(4)	1.52 cents	3.80 cents	5.74 cents	10.20 cents
Diluted earnings per Share	(4)	1.38 cents	N/A	5.44 cents	N/A

Notes:

(1) Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12th November 1999 under the Companies Law of the Cayman Islands. The Company's shares ("Share(s)") were listed on GEM of the Stock Exchange on 18th May 2000. The reorganization of the Group ("Group Reorganisation") prior to the listing on GEM was completed on 4th May 2000. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated results of the Group for the three months and nine months ended 30th September 2000 have been prepared on the merger accounting basis as if the Company had always been the holding

company of the Group. The combined results for the three months and nine months ended 30th September 1999 have been prepared on a basis as if the current group structure had been in existence since 1st January 1999 or since their respective dates of incorporation where there is a shorter period.

All intra-group transactions have been properly eliminated for the current reporting period and for the last corresponding period.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

(2) Turnover

Turnover represents the net invoiced value of goods sold, less sales returns and discounts.

(3) Tax

Provision for Hong Kong profits tax has been calculated at the rate of 16 per cent for the three months and nine months ended 30th September 2000 and last corresponding periods ("Relevant Periods"). Provision for the tax of profits of subsidiaries operating elsewhere has been calculated at the rates applicable in the respective jurisdictions during the Relevant Periods, based on existing tax law, interpretations and practices in respect thereof.

In accordance with the applicable enterprise income tax law of the PRC, the subsidiary established in the PRC is exempt from income tax for the first two profitable years of operation and is entitled to a 50 per cent relief on the income tax that would otherwise be charged for the succeeding three years. The assessable income of the subsidiary for such income tax purpose and the first profitable year of operation were determined based on its statutory financial statements prepared in accordance with accounting principles generally accepted in the PRC. For the Relevant Periods, no provision for PRC income tax has been made in the accounts, as the PRC subsidiary had no assessable income for the Relevant Periods.

There was no significant unprovided deferred tax for the Relevant Periods.

(4) Earnings per Share

The calculation of basic earnings per Share for the three months and the nine months ended 30th September 2000 was based on the Group's profit for the three months ended 30th September 2000 of HK\$3,039,000 and for the nine months ended 30th September 2000 of HK\$10,043,000 and the weighted average of 200,000,000 and 174,817,518 Shares had been in issue during the respective periods. The earnings per Share in respect of the three months and the nine months ended 30th September 1999 was based on the Group's profit for the three months ended 30th September 1999 of HK\$5,695,000 and for the nine months ended 30th September 1999 of HK\$15,301,000 and on 150,000,000 Shares in issue on the assumption that the Group Reorganisation of the Company had been effective during the three months and nine months ended 30th September 1999.

The diluted earnings per Share for the three months and the nine months ended 30th September 2000 was based on the Group's profit for the respective periods and the diluted weighted average of 220,000,000 and 184,744,526 Shares (which incorporated the effect of 20,000,000 potential ordinary shares of the Company (the "Ordinary Share(s)") under Pre-IPO Share Option Plan) had been in issue during the three months and nine months ended 30th September 2000 respectively. No diluted earnings per Share in respect of the three months and the nine months ended 30th September 1999 is calculated as there was no diluted Share during the last corresponding period.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2000. For the nine months ended 30th September 1999, a dividend of HK\$7,023,000 was distributed by Earnway Manufacturing Limited ("EML"), a related company of the Group which is beneficially owned by Mr. Law Man Ming and Mr. Tang Kwok Yuen (both are the management shareholders of the Company), to its then shareholders. The assets and liabilities and the related plastic business of EML had been transferred to the Group as part of the Group's restructuring exercise, details of which had been disclosed in the Prospectus dated 9th May 2000. The dividend rates are not presented as comparative figures as such information is not meaningful for the purpose of this report.

PROSPECTS

In respect of the "Professional Injection Mold System" which is developed with the University of Hong Kong under the support of the Innovation and Technical Fund since May 2000, the Group has already proceeded to a trial period and expects to launch in the second quarter of year 2001.

In order to assist the small and medium enterprises in Hong Kong to fulfill the quality assurance requirements set by the ISO 9000 Year 2000 Version, the Group is in the process of developing an "Electronic Management System". The first module of the new system is expected to be launched in December, 2000.

Looking forward, the Group will ensure that every effort is made to maintain its leading position in the molding industry as well as capitalize its software application experience in developing different design software.

SHARE SUBDIVISION

On 17th October 2000, the directors of the Company proposed that each of the existing issued and unissued Shares of HK\$0.10 each be subdivided into 20 Shares (the "Subdivided Shares") of HK\$0.005 each (the "Share Subdivision"). The Share Subdivision is conditional upon the passing of an ordinary resolution by the shareholders of the Company at an extraordinary general meeting to be held on 24th November 2000 and the GEM Listing Committee of The Stock Exchange of Hong Kong Limited granting a listing of and permission to deal in the Subdivided Shares and any new Subdivided Shares which may fall to be issued pursuant to the exercise of options granted under the Company's share option scheme. Details of the Company's share option scheme are set out in the section headed "Outstanding Share Options".

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2000, the particulars of the directors' interests in the securities of the Company as recorded in the register maintained by the Company under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Type of interest <i>(note i)</i>	No. of Ordinary Share held <i>(approximately)</i>	No. of Share entitled under the share option scheme held as personal interests <i>(note ii)</i>
Mr. Law Man Ming	Corporate	82,152,000	4,000,000
Mr. Tang Kwok Yuen	Corporate	15,648,000	4,000,000
Mr. Chan Ngai Sang, Kenny	Corporate	7,200,000	4,000,000
Mr. Yaw Chee Weng	Corporate	19,575,000	—
Mr. Shiro Murai	Corporate	525,000	—

Notes:

- (i) Mr. Law Man Ming is the beneficial owner of 42,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 84 per cent. of the issued share capital of Diamonds and Pearls Limited, which in turn holds about 48.9 per cent. of the issued share capital of the Company.

Mr. Tang Kwok Yuen is the beneficial owner of 8,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 16 per cent. of the issued share capital of Diamonds and Pearls Limited, which in turn holds about 48.9 per cent. of the issued share capital of the Company.

Mr. Chan Ngai Sang, Kenny is the beneficial owner of 13,445 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 26.9 per cent. of the issued share capital of Joyful Way Holdings Limited, which in turn holds about 13.39 per cent. of the issued share capital of the Company.

Mr. Yaw Chee Weng is the beneficial owner of 36,555 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 73.1 per cent. of the issued share capital of Joyful Way Holdings Limited, which in turn holds about 13.39 per cent. of the issued share capital of the Company.

Mr. Shiro Murai is the beneficial owner of 450,000 shares in Siix Corporation, a company listed on the stock exchange in Osaka, Japan. Siix Corporation in turn holds about 3.75 per cent. of the issued share capital of the Company.

- (ii) The share options were granted under a pre-IPO share option plan, which was approved by the written resolution of all shareholders of the Company dated 4th May 2000. The share options entitle Mr. Law Man Ming, Mr. Tang Kwok Yuen and Mr. Chan Ngai Sang, Kenny each to subscribe for 4,000,000 Shares of HK\$0.10 per Share in the Company at HK\$1.00 each in various stages from 4th May 2002 to 3rd May 2005.

The abovementioned number of shares had not taken into account the Share Subdivision which is subject to conditions as stated in the section headed "Share Subdivision". Had Share Subdivision been effective on 30th September 2000, the directors' interest in securities would be deemed as follows:

Name of director	Type of interest (note i)	No. of Ordinary Share held (approximately)	No. of Share entitled under the share option scheme held as personal interests (note ii)
Mr. Law Man Ming	Corporate	1,643,040,000	80,000,000
Mr. Tang Kwok Yuen	Corporate	312,960,000	80,000,000
Mr. Chan Ngai Sang, Kenny	Corporate	144,000,000	80,000,000
Mr. Yaw Chee Weng	Corporate	391,500,000	—
Mr. Shiro Murai	Corporate	10,500,000	—

Save as disclosed above, at 30th September 2000, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

OUTSTANDING SHARE OPTIONS

On 30th September 2000, the Company adopted two share option schemes, namely the Pre-IPO Share Option Plan and the Share Option Scheme.

Pre-IPO Share Option Plan

On 4th May 2000, options to subscribe for an aggregate of 20,000,000 Shares at an exercise price of HK\$1.00 per Share have conditionally been granted by the Company. The exercise period of these options is from 4th May 2002 to 3rd May 2005. Such options are granted to all executive directors of the Company and 5 employees of the Group. Details of such grant to the directors of the Company are set out in the section headed "Directors' Interest in Securities". Particulars of the outstanding options granted to the 5 employees of the Group are set out below:

Name of grantee	Position	Number of options Granted
Mr. Lo Wai Cheong	Director of a subsidiary of the Group	4,000,000
Ms. Ma Miu Ting	Deputy General Manager of the Group	1,000,000
Ms. Leung Yuet Fung	Financial Controller of the Group	1,000,000
Mr. Chaung Kwai Wah	Vice-President of Sales and Marketing of the Group	1,000,000
Mr. Lo Man Yiu	Production Director of a subsidiary of the Group	1,000,000

The abovementioned number of shares had not taken into account the Share Subdivision which is subject to conditions as stated in the section headed "Share Subdivision". Had Share Subdivision been effective on 30th September 2000, all executive directors and Mr. Lo Wai Cheong are deemed to be granted 80,000,000 options each, whereas the other four grantees are deemed to be granted 20,000,000 options each.

Since the date of grant of the options, no change in the number of options, exercise period and exercise price is made. In addition, no option pursuant to the Pre-IPO Share Option Plan had been exercised, cancelled or lapsed during the nine months ended 30th September 2000.

During the nine months ended 30th September 2000, no options other than the options described above has been granted by the Company or any of its subsidiaries.

Share Option Scheme

The Company also has a Share Option Scheme conditionally adopted by a written resolution of all shareholders of the Company dated 4th May 2000. Under such scheme, full-time employees of any member of the Group, including any executive directors, can take up options to subscribe for Shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. The maximum number of Shares which can be granted under the Pre-IPO Share Option Plan and the Share Option Scheme must not exceed 30 per cent. of the issued share capital of the Company from time to time. No option had been granted under the Share Option Scheme during the period from 4th May 2000 to 30th September 2000.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Other than the share option schemes as described in the above, at no time during the period did the Company grant any right or option to subscribe for equity or debt securities of the Company to any director of the Company or to the spouse or children under 18 years of age of any such director.

SUBSTANTIAL SHAREHOLDERS

According to the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company as at 30th September 2000:

Name	Number of shares	Percentage of holding
Diamonds and Pearls Limited (<i>note i</i>)	97,800,000	48.9 per cent.
Mr. Law Man Ming (<i>note i</i>)	82,152,000	41.1 per cent.
Joyful Way Holdings Limited (<i>note ii</i>)	26,775,000	13.4 per cent.

Notes

- (i) Diamonds and Pearls Limited is beneficially owned as to 84 per cent. by Mr. Law Man Ming and as to 16 per cent. by Mr. Tang Kwok Yuen. Both of them are executive directors of the Company.

- (ii) Joyful Way Holdings Limited is beneficially owned as to approximately 73.1 per cent, by Highway Enterprises Limited which is wholly owned by Mr. Yaw Chee Weng (a non-executive director of the Company) and as to approximately 26.9 per cent. by Top Rank Enterprises Limited which is wholly owned by Mr. Chan Ngai Sang, Kenny (an executive director of the Company).

The abovementioned number of shares had not taken into account the Share Subdivision which is subject to conditions as stated in the section headed "Share Subdivision". Had Share Subdivision been effective on 30th September 2000, the interest in securities of substantial shareholders would be deemed as follows:

Name	Number of shares	Percentage of holding
Diamonds and Pearls Limited (<i>note i</i>)	1,956,000,000	48.9 per cent.
Mr. Law Man Ming (<i>note i</i>)	1,643,040,000	41.1 per cent.
Joyful Way Holdings Limited (<i>note ii</i>)	535,500,000	13.4 per cent.

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 30th September 2000, the following persons were the management shareholders of the Company and were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who are able, as a practical matter, to direct or influence the management of the Company:

Name	Percentage of holding
Diamonds and Pearls Limited	48.9 per cent.
Joyful Way Holdings Limited	13.4 per cent.
Highway Enterprises Limited	9.8 per cent.
Top Rank Enterprises Limited	3.6 per cent.
Mr. Law Man Ming	41.1 per cent.
Mr. Tang Kwok Yuen	7.8 per cent.
Mr. Yaw Chee Weng	9.8 per cent.
Mr. Chan Ngai Sang, Kenny	3.6 per cent.
Mr. Shiro Murai	0.3 per cent.

COMPETING INTEREST

During the period under review, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with the Company or might compete with the business of the Group.

SPONSOR'S INTERESTS

As at 30th September 2000, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial Capital") has confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any members of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group.

Pursuant to the agreement dated 21st October 1999 entered into between the Company and Asia Financial Capital, Asia Financial Capital has received and will receive a fee for acting as the Company's retained sponsor for the period from 18th May 2000 to 31st December 2002.

YEAR 2000 COMPLIANCE

The Group has successfully made the transition to the Year 2000 with all its systems functioning normally. The Directors are confident that the Group's computer systems are Year 2000 compliant.

AUDIT COMMITTEE

The Group has established an audit committee in May 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors, Dr. Chan Yan Cheong and Dr. Chan Nai Keong.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30th September 2000.

By order of the Board
Law Man Ming
Chairman

Hong Kong, 13th November 2000