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SmarTech

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

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Annual Report 2000

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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.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Law Man Ming
Mr. Tang Kwok Yuen
Mr. Chan Ngai Sang, Kenny

NON-EXECUTIVE DIRECTORS

Mr. Yaw Chee Weng
Mr. Shiro Murai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yan Cheong
Dr. Chan Nai Keong

REGISTERED OFFICE

Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Epoch Industrial Building
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WEBSITE

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COMPLIANCE OFFICER

Chan Ngai Sang, Kenny

QUALIFIED ACCOUNTANT

Leung Yuet Fung

COMPANY SECRETARY

Leung Yuet Fung

AUTHORISED REPRESENTATIVES

Chan Ngai Sang, Kenny
Leung Yuet Fung

MEMBERS OF THE AUDIT COMMITTEE

Dr. Chan Yan Cheong
Dr. Chan Nai Keong

STOCK CODE

8068

AUDITORS

Ernst & Young

PRINCIPAL BANKER

Dah Sing Bank Limited
Bank of America (Asia) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
3rd Floor
British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
4/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Directors") of Smartech Digital Manufacturing Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual results of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2000.

I am delighted that the Company has been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 18 May 2000. The listing status not only provides a stronger financial position to the Group, but also raises more business opportunities generating more benefits to shareholders of the Company.

BUSINESS REVIEW

During the year under review, the Group actively developed and consolidated the core businesses in tooling and plastic injection. With the listing proceeds, the Group had strengthened the principal business and explored new opportunities. However, turnover dropped 9% to HK\$111,472,000 (1999: HK\$122,988,000) due to an increase in plastic material cost during the year and the adoption of a more stringent credit policy which affected the orders committed. Net profit plunged 49% to HK\$10,124,000 from HK\$19,956,000 last year.

The decrease in net profit was partly due to the decrease in sales for the year and partly due to the Group's increased expenditure in marketing. However, the Group has purchased new machinery to upgrade the existing production facilities and enhance the overall efficiency of production. Together with the investment in new business, the management is confident in the upcoming returns.

To further expand and develop the principal activity, the Group purchased new machinery to enhance the production capacity and efficiency. In addition, machineries were also acquired for the production of bottle blow molds. Another focus was put on the software application to strengthen the capability of product design and development. During the year under review, the Group achieved satisfactory progress in light of the business objectives. Please refer details in "Comparison of business objectives with actual business progress" of this report.

Being a leader in the molding industry, the Group's virtual manufacturing technique is mature and the support from customers has been secured. In 1998, the Group was accredited as a "High-Tech Enterprise" by the Guangdong Province Science and Technology Committee, signifying the recognition from the industry. Upon the globalization nowadays, different industries converged inducing numerous business opportunities. The Group capitalizes its advanced technical know-how and extensive experience from serving varied industries dedicating to provide digital manufacturing solutions ("DMS") services and to diversify business.

Apart from supplying hardware for manufacturing, the Group provides professional technical support and consultancy to the small and medium-sized enterprises. The value-added services used to improve product appearance and function quality, and enhance production efficiency and profitability. During the year, the design and manufacture of the multifunctional QMaster Family Digital Assistant ("QMaster FDA") was one important milestone to provide future potential growth to the Group. QMaster FDA is a co-developed product, which provides e-commerce services and electronic information, with HOME Solution, Inc. ("HOME Solution"), and a Taiwanese company. After the successful launch of QMaster FDA in Taiwan in August 2000 the Group intends to explore the PRC's market in the middle of year 2001.

The Group's DMS is tailor-made to assist traditional enterprises to get over the advanced technology and to adopt the new international trade model. It is the Group's honor to cooperate with Chaozhou External Economic and Trade Association in December 2000. The cooperative project is targeted to facilitate the digitalization of the enterprises in Chaozhou and accelerate the digital application in the PRC.

CHAIRMAN'S STATEMENT

In the new economy era, the advanced technology hardware can only function well with proper software. Therefore, software development is a key direction of business diversification. With the sponsorship from the Industrial Department of Hong Kong SAR under the "Innovation and Technology Fund" in May 2000 before the Group's listing, the Group collaborated with the Department of Mechanical Engineering of the University of Hong Kong to co-develop the "Professional Injection Mold System", which is under development. Moreover, the "Compass Electronic Management System", a Chinese software to assist enterprises to fulfill the quality assurance requirements set by the ISO9000 Year 2000 Version, was jointly developed with VIL Management Consultant, a well-known consultant for ISO9000 quality management. The "Compass Electronic Management System" will be expected to introduce in the second quarter of year 2001.

In line with the software development and the provision of digital technique in mold manufacturing, the Group strives to identify reliable and effective data transmission support. In early 2001, the Group acquired a data center, Sky Datamann, as a strong support for the future expansion.

PROSPECTS

In the boundless cyber world, all enterprises over the world are groping for the right development direction. The Directors believe that there are numerous opportunities and challenges ahead. Looking forward, the Group intends to consolidate the core business and explore the digital technology. Striving to be a comprehensive DMS provider, the Group will develop more industrial application software.

At present the Group plans to line up with different regional governments or industry associations to assist the digital reengineering of traditional enterprises. Besides, the Group will identify additional strategic alliances with potential technology companies to co-develop various kind of industrial software and information technology products.

Preparing for the plenty of opportunities from the immediate admission of the PRC to the World Trade Organization ("WTO"), the Group will enhance the production capacity and product quality of its tooling and plastic injection businesses. The Group has started studies on magnesium casting molds and environment-friendly products. Initial contact with some potential partners has been in the progress. It is believed that these developments represent a promising future for the Group.

APPRECIATION

Last year, the Company was successfully listed marking a new era. The success was secured by the staff effort and dedication, customers' faith to our services and products and shareholders' support and trust. On behalf of the board, I would like to express my gratitude to all of them.

By order of the board

Law Man Ming

Chairman

Hong Kong, 29 March 2001

In line with the Group business direction of being a DMS services provider, the major projects proceeded during the year under review are stated as follows:

THE STRATEGIC ALLIANCE WITH HOME SOLUTIONS INC.

In mid 2000, the Group entered a cooperation agreement with HOME Solution Inc. ("HOME Solution"), a Taiwanese company, to co-develop the Qmaster FDA. The multi-functional gadget providing e-commerce services such as investment, banking, securities trading, online shopping, ticketing and payment settlement as well as providing electronic information including stock quote, living, health care, entertainment, weather report, traffic and education, etc.

The strategic alliance demonstrated the Group's commitment and capability to be a DMS services provider. The Group paid a decisive role of providing technical consultancy and support in the product development process. Meanwhile, it was responsible for mold manufacturing, assembling and product manufacturing and provided professional advice to product appearance and function. While, HOME Solution was responsible for studying the market potential in Taiwan, and designing product function and appearance.

The QMaster PDA has been launched in Taiwan in August 2000. Currently, the Group is studying the plan to explore the PRC's market in year 2001.

THE COOPERATION PROJECT WITH CHAOZHOU EXTERNAL ECONOMIC AND TRADE ASSOCIATION

SmarTech I-Network Limited, a wholly-owned subsidiary of the Group, cooperate with Chaozhou External Economic and Trade Association to jointly develop DMS co-operative project. The project dedicated to digitize enterprises in Chaozhou and assist them to grasp at the opportunities upon the PRC's entry of the WTO.

The DMS services tailor-made to enterprises in Chaozhou include professional training and comprehensive auxiliary services. The Group has cooperated with enterprises in Chaozhou to provide advice of purchasing, installing equipment and software application, and on-job training for their staff. Moreover, a 3D software institute will be set up in future to train up staffs to be familiarized with and design their products with 3D technology and promote them on the Internet. In view of the application of digitized design and manufacture, and the emerging e-commerce, the Group will establish a transaction platform to capitalize on the benefits from its operation.

Enterprises in the PRC must adapt the technique of using Internet and e-commerce to tackle the more frequent commercial activities upon the immediate admission of the PRC to the WTO in order to attract high-net worth clients, increase export volume and flourish the country' economy. The Group expects various enterprises will be invited through the cooperation with different departments taking advantage of its strong network. Capitalizing on the Group's digital manufacturing technology, design experience and product development capability, the cooperation dedicated to upgrade the traditional enterprise to adapt the Internet development and new economy world so as to be benefited from the opportunities arose. At present, the Industrial and Commerce Department in the PRC targets to realize network business in or less than three-year time and a business administration network system has started to build. It is demonstrated that the central government strongly supports the e-commerce development projecting high potential and promising future.

REVIEW OF OPERATIONS AND PROSPECTS

THE COLLABORATION WITH THE UNIVERSITY OF HONG KONG

With the sponsorship from the Industrial Department of Hong Kong SAR Government under the “Innovation and Technology Fund” in May 2000, Smartech Solutions Limited, a wholly owned subsidiary of the Group, collaborated with the Department of Mechanical Engineering of the University of Hong Kong to co-develop the “Professional Injection Mold System”. The system, which enables users to design the injection mold in an automatic, semi-automatic or interactive manner depending on the geometry complexity of the plastics part and the experience of the mold designer. is the only design software tailor-made for users in Asia.

The investment of this two-year project was HK\$4,320,000, half of which, i.e. HK\$2,160,000, was sponsored by the Industrial Department of the Hong Kong SAR Government while the balance was borne by the Group. The “Professional Injection Mold System”, which is a combination of the academic research results and industrial practical experience, will be officially launched in the second quarter of the year 2001.

THE COOPERATION PROJECT WITH VIL MANAGEMENT CONSULTANT

The Group and VIL Management Consultant, an ISO quality management consultancy, established a joint venture to develop a software, namely “Compass Electronic Management System”, which program the management logic of ISO9000 in Chinese. It is used to assist enterprises to improve the internal management step by step and attain the ISO quality requirement set by the version of Year 2000.

For the software development, VIL provides management content while the Group was responsible for software programming and design. The first version of “Compass Electronic Management System” is written in Chinese and tailor-made for the enterprises in the greater China. It is planned to be launched in the second quarter of year 2001.

THE ACQUISITION OF SKY DATAMANN

On 28 March 2001, the Group, through its wholly-owned subsidiary, Smartech I-Network Limited, complete the acquisition of the entire equity interest in and shareholder’s loans to Sky Datamann, a wholly-owned subsidiary of a Hong Kong main board listed company Asia Tele-Net and Technology Corporation Limited (Stock code: 679) (“ATNT Corporation”), for a consideration of HK\$140 million, through the issuance of 700 million shares of the Company. Sky Datamann is principally engaged in the operation of a data centre in Hong Kong. It is believed that the data centre will facilitate the software development of the Group and strengthen its position as a DMS services provider.

DIRECTORS

Executive Directors

Mr. Law Man Ming, aged 45, is the founder of the Group and the Chairman of the Company. He is responsible for the overall policy setting, management, and strategic development of the Group. He has over 20 years' experience in mechanical, electrical and electronic engineering, as well as in the tooling and plastic manufacturing industry.

Mr. Tang Kwok Yuen, aged 48, joined the Group in 1993 and is the Managing Director of the Company. He assists the Chairman in corporate planning and is also responsible for the marketing and overall administration of the Group. He holds a masters of business administration degree from the International University of America in the US and a diploma in management studies from the Hong Kong Polytechnic University. He has more than 20 years' experience in the molding and plastic industries.

Mr. Chan Ngai Sang, Kenny, aged 36, is an executive Director and is primarily responsible for the financial planning and management of the Group. He holds a bachelor's degree in commerce from the University of New South Wales in Australia and is a member of the Institute of Chartered Accountants of New Zealand, CPA Australia, Hong Kong Society of Accountants and Taxation Institute of Hong Kong. He has more than 10 years of accounting, tax, auditing and corporate finance experience and has been involved in a number of merger and acquisitions and public flotation assignments.

Non-Executive Directors

Mr. Yaw Chee Weng, aged 37, is a non-executive Director. He has over 10 years' experience in forest management, wood-based industries and property development in Malaysia. He holds a bachelor of arts degree in commerce from the University of Wollongong, Australia.

Mr. Shiro Murai, aged 72, is a non-executive Director. He has more than 40 years' experience in trading and developing the field of electronic industries in Japan and worldwide. He is currently the president of Siix Corporation, formerly named Sakata Inx International Corp, a company which is listed on Osaka Securities Exchange, Japan. He graduated from Kwansei Gakuin University in Japan in 1952.

Independent Non-Executive Directors

Dr. Chan Yan Cheong, aged 47, is an independent non-executive Director. Dr. Chan holds a Ph.D. degree in electrical engineering from Imperial College of Science and Technology, University of London and a master of business administration degree from the University of Hong Kong. Dr. Chan is also qualified as a chartered engineer. He is currently a professor in the department of electronic engineering of the City University of Hong Kong and a director of centre for electronic packaging and assemblies, failure analysis and reliability engineering. He has authored or co-authored over 90 technical publications in reference journal and conference proceedings.

Dr. Chan Nai Keong, C.B.E, J.P., aged 69, is an independent non-executive Director. He holds a first class honours diploma in civil engineering from Loughborough College, UK and an honorary doctoral degree in technology from Loughborough University, UK. He served the Hong Kong Government for 34 years and has held such top level position as the Secretary for Lands and Works. Dr. Chan is a Fellow of the Royal Academy of Engineering, The Institution of Civil Engineers, The Institution of Structural Engineers, The Hong Kong Academy of Engineering Sciences and The Hong Kong Institution of Engineers. He has served as an official member of the Legislative Council, a Hong Kong Affairs Adviser and a member of the Preparatory Committee for the Hong Kong Special Administrative Region appointed by the Central Government. Dr. Chan is also a director of Yip's Hang Cheung (Holdings) Limited, K. Wah Construction Materials Limited and E. Bon Holdings Limited, which are listed on the Main Board.

SENIOR MANAGEMENT

Mr. Richard W. C. Lo, aged 42, is the director of Smartech Limited in Canada. He is responsible for the overall management and development for the Group's North American division. He has more than 18 years' experience in sales and marketing, and has a successful track record in building business relationships with North American and European customers.

Ms. Leung Yuet Fung, aged 29, is the Group's Financial Controller. She is in charge of financial management and accounting functions. Ms. Leung holds a bachelor's degree in business administration from the Chinese University of Hong Kong and is a member of Hong Kong Society of Accountants and Association of Chartered Certified Accountants. She worked in an international accounting firm prior to joining the Group and has a wide experience in the auditing and accounting field.

Mr. Lo Man Yiu, aged 41, is a production director of Dongguan Smartech. Mr. Lo holds a bachelor's degree in science from The University of Toronto in Canada. Before joining the Group in 1996, Mr. Lo has participated in the field of business analysis and management information systems in North America. He has a very strong background in office automation and systems management. He is a brother of Mr. Law Man Ming, the founder of the Group and Chairman of the Company.

Mr. Joseph Chung, aged 35, is the vice-president of sales and marketing of Smartech Limited in Canada. He is responsible for sales and marketing for the Group's North American division and has more than 10 years' experience in developing the North American market. He holds a bachelors of social science degree in economics from the University of Ottawa in Canada.

Mr. Law Kwan Pui, aged 30, is the Operation Manager in the Group's Design and Development Team. He is well experienced in mechanical design technology and is now responsible for the overall CAD/CAE/CAM management and technical design of products and parts. He has a bachelor's degree in mechanical engineering from Hong Kong Polytechnic University.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective of the year 2000 as disclosed in the prospectus dated 9th May 2000 (the "Prospectus") *Actual business progress up to year 2000*

PLASTIC INJECTION MOLDS

Business plans

To purchase accessories to streamline the production line

The Group has completed the study of the plan to streamline the production line of plastic injection molds and has placed order to purchase some high precision machines. These machines were installed in the year 2000 for increasing the degree of precision and production capacity.

HK\$3 million will be applied

HK\$3 million has been spent on the purchase of machine to enhance the productivity.

PLASTIC INJECTION PRODUCTS

Business plans

To upgrade the existing equipment to improve efficiency

The Group has completed the study of the improvement plan for plastic injection products division. The improvement plan for increasing efficiency and improvements in the finishing and printing processes were implemented.

HK\$3 million will be applied

HK\$3 million has been spent on the upgrading of existing equipment by installation of robot hand to enhance efficiency and on the purchase of equipment to improve the finishing and printing processes.

BOTTLE BLOW MOLDS

Business plans

To purchase machinery and equipment for production

The Group has completed the study of the plan to expand the bottle blow molds production.

To expand the existing department for production

The plan of expansion to facilitate the production of bottle blow molds had been implemented.

HK\$4 million will be applied

HK\$4 million was spent on the purchase of machine for production and 30 employees have been allocated to develop the production.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

PLASTIC DOUBLE INJECTION PRODUCTS

Business plans

To purchase machinery for production

The study of the production plan of plastic double injection products is still in progress.

HK\$4 million will be applied

Upon completion of the study, the marketing department will perform market research and contact potential customers before the purchase of machinery.

MARKETING AND SALES

Business plans

To set up new sales offices in the mid West/West coast of the US and in some major cities of the PRC for expansion and strengthening of its distribution network

Sales offices were set up in Beijing and Shanghai to expand and strengthen the distribution network. Intensive marketing campaigns for advertising and promoting the Group's products have been launched. A representative of the Group has been sent to the United States to further study the suitable location for a new sales office and to contact potential customers.

To advertise and promote the Group's products

HK\$5 million will be applied with HK\$1.8 million in year 2000, HK\$1.2 million in year 2001 and HK\$2 million in year 2002.

HK\$1.8 million was spent on marketing activities and setting up of sales offices in the PRC and sales representatives were sent to Australia and United States. All of them receive positive response and establish business relationship with new customers. HK\$3.2 million will be spent on the launch of intensive marketing campaigns and on the expansion of marketing department in 2001 and 2002.

DESIGN AND DEVELOPMENT

Business plans

To upgrade application softwares

Suitable software and hardware were identified, and some already purchased by the Group in accordance with the Group's intention to develop high speed machinery.

The progress of the development of mold design software with the University of Hong Kong is satisfactory and both the University and the Company are working toward to release the first draft version of the software in the middle of year 2001.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Application for patent for a Digital Video Compact Disc packaging designed by the Group has been completed.
HK\$5 million will be applied with HK\$0.3 million in year 2000, HK\$3.2 million in year 2001 and HK\$1.5 million in year 2002.	HK\$0.3 million was spent on the upgrading of application softwares. A further of HK\$4.7 million will be invested on the upgrading of softwares and on the expansion of the design and development department in 2001 and 2002.

OTHERS

Business plans

To use as general working capital

HK\$4 million will be applied

HK\$4 million has been allocated to working capital

Barring unforeseeable circumstances and based on the use of proceeds up to 31st December 2000, the Board of Directors believes that the Company has sufficient funds to satisfy the future business objectives as set out in the Prospectus dated 9th May 2000.

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2000.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 November 1999 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), the Company acquired the entire issued share capital of Smartech International Group Limited, the then holding company of the subsidiaries included in the Reorganisation, in consideration of and in exchange for the Company's allotted and issued share capital. The Company therefore became the holding company of the Group. Further details of the Reorganisation are set out in note 21 to the financial statements and in the Company's prospectus dated 9 May 2000.

The shares of the Company were listed on the GEM of the Stock Exchange with effect from 18 May 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit from operating activities by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

	Turnover <i>HK\$'000</i>	Profit from operating activities <i>HK\$'000</i>
By principal activity:		
Manufacturing and sale of:		
Molds	79,227	11,467
Plastic products	32,245	4,204
	<u>111,472</u>	<u>15,671</u>
By geographical area:		
The People's Republic of China:		
Hong Kong	27,259	3,633
Elsewhere	5,521	767
Europe and North America	44,984	5,228
Taiwan	22,791	3,612
Japan	9,028	1,946
Others	1,889	485
	<u>111,472</u>	<u>15,671</u>

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 52.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the past three financial years ended 31 December 2000 is set out on page 53 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group are set out in notes 16 and 17, respectively, to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, and further details of the Company's share option scheme are set out in note 21 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the year and further details of the distributable reserves of the Company are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$300,000 (1999: Nil).

REPORT OF THE DIRECTORS

STAFF RETIREMENT SCHEME AND COSTS

Details of the staff retirement scheme of the Group and the employer's staff retirement costs charged to the profit and loss account for the year are set out in notes 3 and 5, respectively, to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Law Man Ming (Chairman)	(appointed on 17 November 1999)
Mr. Tang Kwok Yuen (Managing Director)	(appointed on 17 November 1999)
Mr. Chan Ngai Sang, Kenny	(appointed on 17 November 1999)

Non-executive directors:

Mr. Yaw Chee Weng	(appointed on 17 November 1999)
Mr. Shiro Murai	(appointed on 17 November 1999)

Independent non-executive directors:

Dr. Chan Yan Cheong	(appointed on 17 November 1999)
Dr. Chan Nai Keong	(appointed on 20 April 2000)

In accordance with Articles 86(3) and 87(1) and of the Company's Articles of Association, Mr. Chan Ngai Sang, Kenny and Dr. Chan Nai Keong will retire by rotation and being eligible offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of directors and of the five highest paid employees in the Group are set out in notes 7 and 8, respectively, to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing on 4 May 2000 and continuing thereafter unless and until terminated by not less than six months' notice in writing served by either party without payment of any compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS (continued)

Brief particulars of these service agreements are set out below:

- (i) each of Mr. Law Man Ming ("Mr. Law"), Mr. Tang Kwok Yuen ("Mr. Tang") and Mr. Chan Ngai Sang, Kenny ("Mr. Chan") shall be entitled to a basic monthly salary of HK\$120,000, HK\$100,000 and HK\$100,000 respectively, which shall be subject to review by the board of directors on an annual basis;
- (ii) each of the executive directors shall be entitled to a year-end bonus equivalents to two months' basic salary of such director which shall be payable at the end of each calendar year (irrespective of profit); and
- (iii) each of the executive directors shall be entitled to participate in any bonus scheme not exceeding a cap of 5% of the net profit attributable to shareholders of the Company that may be introduced by the Company provided that such participation, including the basis for calculating any payments, shall be determined at the sole and absolute discretion of the board.

Save as disclosed herein, there is no other service contract or management agreement between any of the directors or any service company controlled by any member of the Group, nor is any such contract or agreement proposed (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

During the year 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.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As At 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Directors	Type of interest	Number of shares held
Mr. Law	Corporate (Note a)	1,643,040,000
Mr. Tang	Corporate (Note b)	312,960,000
Mr. Chan	Corporate (Note c)	144,000,000
Mr. Yaw Chee Weng ("Mr. Yaw")	Corporate (Note d)	391,500,000
Mr. Shiro Murai ("Mr. Murai")	Corporate (Note e)	10,500,000

The interest of the directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARE CAPITAL *(continued)*

Notes:

- (a) Mr. Law was the beneficial owner of 42,000 shares of US\$1.00 each in Diamonds and Pearls Limited ("Diamonds and Pearls"), representing 84% of the issued share capital of Diamonds and Pearls, which in turn held approximately 48.9% of the issued share capital of the Company.
- (b) Mr. Tang was the beneficial owner of 8,000 shares of US\$1.00 each in Diamonds and Pearls, representing 16% of the issued share capital of Diamonds and Pearls, which in turn held approximately 48.9% of the issued share capital of the Company.
- (c) Mr. Chan was the beneficial owner of 13,445 shares of US\$1.00 each in Joyful Way Holdings Limited ("Joyful Way"), representing 26.9% of the issued share capital of Joyful Way, which in turn held approximately 13.39% of the issued share capital of the Company.
- (d) Mr. Yaw was the beneficial owner of 36,555 shares of US\$1.00 each in Joyful Way, representing 73.1% of the issued share capital of Joyful Way, which in turn held approximately 13.39% of the issued share capital of the Company.
- (e) Mr. Murai was the beneficial owner of 450,000 shares in Siix Corporation, a company listed on the stock exchange in Osaka, Japan. Siix Corporation in turn held approximately 3.75% of the issued share capital of the Company.

Save as disclosed above, at 31 December 2000, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the terms of a Pre-IPO share option plan (the "Pre-IPO Plan"), the following options were granted at nil consolidation to certain directors on 4 May 2000 in their personal capacity to subscribe for shares in the Company at any time from 4 May 2002 up to and including 3 May 2005 at an exercise price of HK\$0.05 per share.

Name of grantee	Number of shares
Mr. Law	80,000,000
Mr. Tang	80,000,000
Mr. Chan	80,000,000
	<hr/>
	240,000,000
	<hr/> <hr/>

Further details of the Pre-IPO Plan are set out in note 21 to the financial statements.

Under the terms of a share option scheme (the "Scheme") conditionally adopted by a written resolution of all shareholders of the Company on 4 May 2000, full-time employees of any members 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 Scheme. Further details of the Scheme are set out in note 21 to the financial statements. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 18 May 2000. No options have been granted to any directors or employees under the Scheme up to the date of this report.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES *(continued)*

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or the respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interest of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares
Diamonds and Pearls <i>(Note a)</i>	1,956,000,000
Mr. Law <i>(Note a)</i>	1,643,040,000
Joyful Way <i>(Note b)</i>	535,500,000

Notes:

- Diamonds and Pearls was beneficially owned as to 84% by Mr. Law (the chairman of the Company) and as to 16% by Mr. Tang (the managing director of the Company).
- Joyful Way was beneficially owned as to approximately 73.1% by Highway Enterprises, which was wholly-owned by Mr. Yaw (a non-executive director) and as to approximately 26.9% by Top Rank, which was wholly-owned by Mr. Chan (an executive director).

On 2 February 2001, Diamonds and Pearls confirmed to the board that 140 million shares had been transferred from the existing escrow agent and had been pledged to an authorised institution under the Banking Ordinance as security for a three-year term loan to Honson Corporation Limited, a company which is beneficially owned as to 84% by Mr. Law and as to 16% by Mr. Tang respectively. Mr. Law and Mr. Tang are also directors of Honson Corporation Limited.

Save as disclosed above, no persons, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Other than in connection with the Company's initial public offering by way of placing, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

On 1 December 1999, a tenancy agreement was entered into between Mass Source Investment Limited ("Mass Source") as the Landlord and the Group as the tenant whereby Mass Source agreed to lease to the Group an office located in Tsing Yi, New Territories for a term of three years commencing on 1 December 1999, at a monthly rental of HK\$51,000. Mass Source is beneficially owned by Mr. Tang who is a director of the Company.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and the largest customer accounted for 41% and 14%, respectively, of the total sales for the year. Purchases from the Group's five largest suppliers and the largest supplier accounted for 30% and 12%, respectively, of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or suppliers during the year.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, none of the directors 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 INTEREST

As at 31 December 2000, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial") had 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 21 October 1999 entered into between the Company and Asia Financial, Asia Financial has received and will receive a fee for acting as the Company's retained sponsor for the period from 18 May 2000 to 31 December 2002 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

The net proceeds of the issue of 50,000,000 new shares issued by the Company by way of placing at HK\$1.00 per share on 16 May 2000, which was subject to the terms specified in the Prospectus dated 9 May 2000 ("New Issue"), after deducted related expenses, were about HK\$39,000,000. Please refer to the "Comparison of business objective with actual business progress" of this report for the details of use of proceeds. Barring unforeseeable circumstances and based on the use of proceeds up to 31 December 2000, the Board of Director believes that the Company has sufficient funds to satisfy the future business objective as set out in the Prospectus dated 9 May 2000.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") in May 2000 with written terms of reference in compliance with requirements as set out in Rule 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors, Dr. Chan Yan Cheong and Dr. Chan Nai Keong. The Group's financial statements for the year ended 31 December 2000 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures were made. Two meetings were held by the committee members during the financial year.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Law Man Ming

Chairman

Hong Kong

29 March 2001

REPORT OF THE AUDITORS

To the members

Smartech Digital Manufacturing Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

29 March 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2000

	Notes	Consolidated		Proforma combined (Note 1)
		2000 HK\$'000	1999 HK\$'000	1999 HK\$'000
TURNOVER	4	111,472	122,988	132,980
Cost of sales		<u>(62,072)</u>	<u>(69,736)</u>	<u>(74,350)</u>
Gross profit		49,400	53,252	58,630
Other revenue	4	4,948	3,930	3,126
Distribution costs		<u>(2,290)</u>	<u>(3,023)</u>	<u>(3,219)</u>
Administrative expenses		<u>(28,149)</u>	<u>(22,959)</u>	<u>(24,587)</u>
Other operating expenses		<u>(8,238)</u>	<u>(5,239)</u>	<u>(6,360)</u>
PROFIT FROM OPERATING ACTIVITIES	5	15,671	25,961	27,590
Finance costs	6	<u>(2,136)</u>	<u>(1,518)</u>	<u>(2,355)</u>
PROFIT BEFORE TAX		13,535	24,443	25,235
Tax	9	<u>(3,413)</u>	<u>(4,454)</u>	<u>(4,952)</u>
PROFIT BEFORE MINORITY INTERESTS		10,122	19,989	20,283
Minority interests		<u>2</u>	<u>(33)</u>	<u>(33)</u>
NET PROFIT FROM ORDINARY ACTIVITIES				
ATTRIBUTABLE TO SHAREHOLDERS	10	10,124	19,956	20,250
Dividend	11	<u>—</u>	<u>—</u>	<u>(7,023)</u>
RETAINED PROFIT FOR THE YEAR	22	<u>10,124</u>	<u>19,956</u>	<u>13,227</u>
EARNINGS PER SHARE (cents)	12			
Basic		<u>0.28</u>	<u>0.67</u>	<u>0.68</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2000

		Consolidated		Proforma combined (Note 1)
	Note	2000 HK\$'000	1999 HK\$'000	1999 HK\$'000
Exchange differences on translation of the financial statements of foreign subsidiaries and gain/(loss) not recognised in the consolidated profit and loss account	22	(45)	129	129
Net profit from ordinary activities attributable to shareholders		<u>10,124</u>	<u>19,956</u>	<u>20,250</u>
Total recognised gains		<u><u>10,079</u></u>	<u><u>20,085</u></u>	<u><u>20,379</u></u>

CONSOLIDATED BALANCE SHEET

31 December 2000

	<i>Notes</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	13	78,541	64,868
Deposits paid for purchases of fixed assets		9,204	—
		<u>87,745</u>	<u>64,868</u>
CURRENT ASSETS			
Inventories	15	22,870	19,884
Trade receivables		35,748	17,359
Prepayments, deposits and other receivables		6,440	3,378
Pledged time deposits	25	6,300	—
Cash and bank balances		35,702	7,696
		<u>107,060</u>	<u>48,317</u>
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	13,462	101
Trade and bills payables		25,300	17,983
Deposits received		22,353	10,980
Accrued liabilities and other payables		17,849	5,621
Finance lease payables	17	4,749	5,787
Tax payable		7,148	4,752
		<u>90,861</u>	<u>45,224</u>
NET CURRENT ASSETS		<u>16,199</u>	<u>3,093</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>103,944</u>	<u>67,961</u>

CONSOLIDATED BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	16	—	(110)
Finance lease payables	17	(3,881)	(2,735)
Other payables	18	—	(4,151)
Shareholder's loan	19	—	(3,140)
Deferred tax	20	(700)	(450)
		<u>(4,581)</u>	<u>(10,586)</u>
Minority interests		<u>(31)</u>	<u>(33)</u>
		<u>99,332</u>	<u>57,342</u>
CAPITAL AND RESERVES			
Issued capital	21	20,000	1
Reserves	22	<u>79,332</u>	<u>57,341</u>
		<u>99,332</u>	<u>57,342</u>

Law Man Ming
Director

Tang Kwok Yuen
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

	<i>Notes</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	23(a)	27,419	6,813
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,229	304
Interest paid		(521)	(163)
Interest element on finance lease rental payments		(1,615)	(1,355)
Net cash outflow from returns on investments and servicing of finance		<u>(907)</u>	<u>(1,214)</u>
TAX			
Hong Kong profits tax paid		<u>(767)</u>	<u>(106)</u>
INVESTING ACTIVITIES			
Purchases of fixed assets		(18,725)	(933)
Proceeds from disposal of fixed assets		1,691	—
Acquisition of subsidiaries	23(c)	(2,390)	—
Deposits paid for purchases of fixed assets		<u>(9,204)</u>	<u>—</u>
Net cash outflow from investing activities		<u>(28,628)</u>	<u>(933)</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(2,883)	4,560
FINANCING ACTIVITIES			
Proceeds from issue of share capital	23(b)	50,000	—
Share issue expenses	23(b)	(14,328)	—
Drawdown of other loans	23(b)	13,462	—
Repayment of bank loans	23(b)	(211)	(82)
Advance/(repayment) of shareholder's loan	23(b)	(3,140)	3,140
Increase in other payables	23(b)	—	4,151
Capital element of finance lease rental payments	23(b)	(8,501)	(7,441)
Increase in pledged time deposits		<u>(6,300)</u>	<u>—</u>
Net cash inflow/(outflow) from financing activities		<u>30,982</u>	<u>(232)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		28,099	4,328
Cash and cash equivalents at beginning of year		7,696	3,171
Effect of foreign exchange rate changes, net		<u>(93)</u>	<u>197</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>35,702</u></u>	<u><u>7,696</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u><u>35,702</u></u>	<u><u>7,696</u></u>

BALANCE SHEET

31 December 2000

	<i>Notes</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
NON-CURRENT ASSET			
Interests in subsidiaries	14	<u>79,901</u>	<u>—</u>
CURRENT ASSETS			
Other receivables		14	1
Cash and bank balances		<u>14,697</u>	<u>—</u>
		<u>14,711</u>	<u>1</u>
		<u>94,612</u>	<u>1</u>
CAPITAL AND RESERVES			
Issued capital	21	20,000	1
Reserves	22	<u>74,612</u>	<u>—</u>
		<u>94,612</u>	<u>1</u>

Law Man Ming
Director

Tang Kwok Yuen
Director

31 December 2000

I. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 November 1999 under the Companies Law (1998 Revision) of the Cayman Islands. On 2 February 2000, pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Smartech International Group Limited, the then holding company of the subsidiaries included in the Group reorganisation, in consideration of and in exchange for the Company's allotted and issued share capital, and thereby became the holding company of the Group.

Further details of the Group reorganisation are set out in note 21 to the financial statements and in the Company's prospectus dated 9 May 2000.

The Company's shares have been listed on the GEM of the Stock Exchange with effect from 18 May 2000.

The Group reorganisation involved companies under common control, and for accounting purposes, the Group will be regarded and accounted for as a continuing group. Accordingly, the consolidated financial statements have been prepared using the merger basis as if the Company had always been the holding company of the Group. On this basis, the Company has been treated as the holding company of the companies comprising the Group for the financial years presented rather than from the date of acquisition of the subsidiaries.

For information purposes, the proforma combined results of the Group for the year ended 31 December 1999 included the results of the companies comprising the Group and the results of Earnway Manufacturing Limited ("EML") and Earnway Technology Limited ("ETL") for the period from 1 January 1999 to 31 December 1999.

EML and ETL were beneficially owned by Messrs. Law Man Ming, and Tang Kwok Yuen (collectively "Law and Tang"), who are directors of the Company and have substantial interests in the Company. EML was principally engaged in the manufacture and sale of plastic products, while ETL was principally engaged in the trading of molds. As part of a restructuring exercise, with effect from 2 July 1999, the businesses and certain related assets and liabilities of EML and ETL were transferred to Smartech Plastic Moulding Limited and Smartech Manufacturing Limited, subsidiaries of the Company, respectively. Thereafter, EML and ETL ceased their business operations and became dormant.

In the opinion of the directors, in order to present additional useful comparative information for members, a proforma combined profit and loss account including the operating results of the mold and plastic business previously owned and managed by Law and Tang for the year ended 31 December 1999 (as opposed to the required accounting basis from 2 July 1999 described above) has been presented.

In the opinion of the directors, the financial statements, prepared on the above basis, present fairly the results, cash flows and the state of affairs of the Group as a whole.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

2. CORPORATE INFORMATION

During the year, the Group was involved in the manufacture and sale of high precision molds and plastic products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generated in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as the result of Group reorganisation as described in note 1 above. They included the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective date of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess of the purchase consideration paid for subsidiaries over the fair values ascribed to the net underlying assets acquired at the date of acquisition and is eliminated against reserves in the year in which it arises.

Joint venture company

The Group's joint venture company is an independent business entity established and operating in the People's Republic of China (the "PRC"). The joint venture agreement and related constitution stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared in accordance with the terms of the joint venture agreement.

The Group's joint venture company is accounted for as a subsidiary as the Group has unilateral control over the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Building and factory improvements	Over the remaining lease terms or the tenure of the joint venture
Plant and machinery	10% - 20%
Computer and equipment	20% - 30%
Furniture and fixtures	20%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and manufactured finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on the estimated selling prices less further costs expected to be incurred in selling and distribution.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and a joint venture company denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised over the period in which the developed products are expected to be marketable, using the straight-line basis over the commercial lives, commencing from the date when the products are put into commercial production.

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

A PRC subsidiary of the Group maintains a defined contribution retirement plan for certain of its employees. It contributes to a state-sponsored retirement plan of approximately 17% of the basic salary of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. There were no forfeited contributions available to the Group to reduce its contributions in future years.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, less sales returns and discounts. An analysis of turnover and revenue is as follows:

	Consolidated		Proforma combined (Note 1)
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover - Sale of goods	<u>111,472</u>	<u>122,988</u>	<u>132,980</u>
Interest income	1,229	304	308
Exchange gains, net	—	248	246
Sundry income	<u>3,719</u>	<u>3,378</u>	<u>2,572</u>
Other revenue	<u>4,948</u>	<u>3,930</u>	<u>3,126</u>
Total	<u><u>116,420</u></u>	<u><u>126,918</u></u>	<u><u>136,106</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Consolidated		Proforma combined (Note 1)
	2000 HK\$'000	1999 HK\$'000	1999 HK\$'000
Depreciation:			
Owned fixed assets	5,507	4,563	4,894
Leased fixed assets	2,412	2,719	2,719
	<u>7,919</u>	<u>7,282</u>	<u>7,613</u>
Auditors' remunerations	720	500	516
Staff costs (exclusive of directors' remuneration disclosed in note 7):			
Wages and salaries	20,430	15,789	15,984
Staff retirement benefits*	137	8	8
Rentals in respect of land and buildings	1,061	817	817
Payment for the use of an industrial plant	3,505	2,779	3,433
Provision for doubtful debts	1,400	—	—
Cost of inventories sold	61,763	69,066	73,650
Research and development costs	650	—	—
Loss on disposal of fixed assets	75	17	17
Exchange losses, net	103	—	—
and after crediting:			
Interest income	1,229	304	308
Exchange gains, net	<u>—</u>	<u>248</u>	<u>246</u>

* At 31 December 2000, there were no forfeited contributions available to the Group to reduce contributions of staff retirement scheme in future years (1999: Nil).

NOTES TO THE FINANCIAL STATEMENTS

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6. FINANCE COSTS

	Consolidated		Proforma combined
	2000	1999	(Note 1)
	HK\$'000	HK\$'000	1999 HK\$'000
Interest expense on:			
Bank loans wholly repayable within five years	10	19	19
Finance leases	1,615	1,355	1,577
Import bills	511	144	759
	<u>2,136</u>	<u>1,518</u>	<u>2,355</u>

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance is as follows:

	Consolidated		Proforma combined
	2000	1999	(Note 1)
	HK\$'000	HK\$'000	1999 HK\$'000
Fees	190	—	—
Other emoluments:			
Basic salaries and allowances	3,680	1,110	1,110
Staff retirement scheme contributions	3	—	—
	<u>3,873</u>	<u>1,110</u>	<u>1,110</u>

The remuneration paid by the Group to the three executive directors of the Company for the year ended 31 December 2000 analysed on an individual basis was as follows: HK\$1,494,334 (1999: HK\$750,000), HK\$1,254,333 (1999: HK\$360,000) and HK\$934,333 (1999: Nil).

The remuneration paid by the Group to the two independent non-executive directors of the Company for the year ended 31 December 2000 analysed on an individual basis was as follows: HK\$110,000 (1999: Nil) and HK\$80,000 (1999: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director either waived or agreed to waive any remuneration during the year.

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7. DIRECTORS' REMUNERATION (continued)

During the year, share options to subscribe for 240,000,000 shares (as adjusted for the Share Subdivision) of HK\$0.005 each of the Company at any time from 4 May 2002 up to and including 3 May 2005 at an exercise price of HK\$0.05 per share (as adjusted for the Share Subdivision) were granted to certain directors.

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (1999: two) directors, details of whose emoluments are set out in note 7 above. The details of the remuneration of the remaining two (1999: three) non-directors, highest paid employees during the year are set out as follows:

	Consolidated		Proforma combined (Note 1)
	2000	1999	1999
	HK\$'000	HK\$'000	HK\$'000
Basic salaries and allowances	1,015	1,218	1,218
Staff retirement scheme contributions	2	—	—
	<u>1,017</u>	<u>1,218</u>	<u>1,218</u>

The remuneration of the non-directors, highest paid employees fell within the following band:

	Number of employees	
	2000	1999
Nil - HK\$1,000,000	<u>2</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, share options to subscribe for 280,000,000 shares (as adjusted for the Share Subdivision) of HK\$0.005 each of the Company at any time from 4 May 2002 up to and including 3 May 2005 at an exercise price of HK\$0.05 per share (as adjusted for the Share Subdivision) were granted to the five highest employees of the Group.

No value is included in the five highest paid employees in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's Shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

NOTES TO THE FINANCIAL STATEMENTS

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9. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Consolidated		Proforma combined (Note 1)
	2000	1999	1999
	HK\$'000	HK\$'000	HK\$'000
Provision for tax in respect of profits for the year:			
Hong Kong	2,640	3,100	3,598
Elsewhere	523	1,354	1,354
Deferred tax - note 20	250	—	—
Tax charge for the year	<u>3,413</u>	<u>4,454</u>	<u>4,952</u>

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders includes the profit for the year dealt with in the financial statements of the Company amounting to HK\$861,000 (Period from 12 November 1999 (date of incorporation) to 31 December 1999: Nil).

11. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation. The dividend of HK\$7,023,000 in the year ended 31 December 1999 was paid by EML to its then shareholders prior to the group reorganisation as set out in note 1 to the financial statements. The rates of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful for the purpose of these financial statements.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$10,124,000 (1999: HK\$19,956,000) and the weighted average of 3,622,950,820 (1999: 3,000,000,000) ordinary shares in issue during the year as adjusted for the Share Subdivision (note 21) as described below. The weighted average number of shares used to calculate both the current and prior year's earnings per share includes the pro forma issued share capital of the Company, comprising 200 shares issued on incorporation of the Company, 200,000 shares issued as part of the acquisition of the entire issued share capital of Smartech International Group Limited and the capitalisation issue of 2,999,799,800 shares as further described in note 21 to the financial statements. The weighted average number of shares used in the current year's earnings per share calculation also includes the 1,000,000,000 shares issued on the public listing.

NOTES TO THE FINANCIAL STATEMENTS

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12. EARNINGS PER SHARE (continued)

Diluted earnings per share for the years ended 31 December 2000 and 1999 have not been calculated as no diluting events existed during these years.

The comparative amounts of earnings per share have been adjusted for: (1) the subdivision of the Company's shares on the basis of every one then existing share of HK\$1.00 each into ten subdivided shares of HK\$0.10 each being divided on 1 February 2000; and (2) the subdivision of the Company's shares on the basis of every one then existing share of HK\$0.10 each into twenty subdivided shares of HK\$0.005 each on 24 November 2000.

13. FIXED ASSETS

Group

	Building and factory improvements HK\$'000	Plant and machinery HK\$'000	Computer and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:						
At beginning of year	25,286	49,541	1,925	4,428	134	81,314
Arising from acquisition of subsidiaries	124	—	83	6	—	213
Additions	202	17,629	2,134	285	2,933	23,183
Disposals	(143)	(2,010)	(1,115)	(284)	(132)	(3,684)
Exchange realignment	(5)	(44)	(30)	(8)	(2)	(89)
At 31 December 2000	<u>25,464</u>	<u>65,116</u>	<u>2,997</u>	<u>4,427</u>	<u>2,933</u>	<u>100,937</u>
Accumulated depreciation:						
At beginning of year	2,372	11,649	974	1,340	111	16,446
Provided during the year	1,529	4,987	377	853	173	7,919
Disposals	(74)	(891)	(723)	(122)	(108)	(1,918)
Exchange realignment	(2)	(23)	(20)	(3)	(3)	(51)
At 31 December 2000	<u>3,825</u>	<u>15,722</u>	<u>608</u>	<u>2,068</u>	<u>173</u>	<u>22,396</u>
Net book value:						
At 31 December 2000	<u>21,639</u>	<u>49,394</u>	<u>2,389</u>	<u>2,359</u>	<u>2,760</u>	<u>78,541</u>
At 31 December 1999	<u>22,914</u>	<u>37,892</u>	<u>951</u>	<u>3,088</u>	<u>23</u>	<u>64,868</u>

The net book value of the fixed assets of the Group held under finance lease as at 31 December 2000 amounted to HK\$16,451,319 (1999: HK\$22,754,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

14. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	58,078	—
Due from subsidiaries	21,823	—
	<u>79,901</u>	<u>—</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Smartech International Group Limited	British Virgin Islands/Hong Kong	US\$1,000,000	100%	Investment holding
Smartech Manufacturing Limited	Hong Kong	HK\$5,000,000	100%	Manufacture and sale of molds
Dongguan Smartech Tooling & Plastics Limited ("Dongguan Smartech")	People's Republic of China	US\$6,000,000 Note	100%	Manufacture and sale of molds and plastic products
Smartech Plastic Moulding Limited	Hong Kong	HK\$100	100%	Manufacture of plastic products
Smartech (Overseas) Limited	Hong Kong	HK\$100	100%	Investment holding
Smartech Manufacturing Limited	Canada	CAN\$266,700	100%	Sale of molds
Smartech Limited	Canada	CAN\$1,000	100%	Sale of molds and provision of customer services
Smartech Solutions Limited	Hong Kong	HK\$2	100%	Software development
Smartech Services Limited	Hong Kong	HK\$2	100%	Provision of management services
Smartech Technology Limited	British Virgin Islands/Hong Kong	US\$100	80%	Product design and development

14. INTERESTS IN SUBSIDIARIES (continued)

Except for Smartech International Group Limited, all the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note:

Dongguan Smartech was a Sino-foreign equity joint venture established in the PRC with a tenure of 20 years expiring on 21 March 2016. The investment and registered capital thereof were US\$29,338,000 and US\$11,740,000, respectively. Pursuant to the equity joint venture agreement dated 15 March 1996, profit distribution and net assets distribution upon dissolution of the joint venture were to be made in proportion to the specified capital injections by both parties i.e., 70% and 30% attributable to the Group and the PRC joint venture partner, respectively. However, since the establishment of the joint venture, the Group had only contributed its share of the registered capital up to approximately US\$6 million and the PRC joint venture partner had not yet contributed any of the committed capital into the joint venture, including the land use rights of the industrial plant being used by the joint venture. Instead, the PRC joint venture partner had procured the industrial plant to be used and occupied by the joint venture in return for the payment of an annual agreed fee from the Group, which has been charged to the profit and loss account of the Group.

To rectify the fact that both parties of the joint venture had not fulfilled their capital injection obligations, it was agreed that both parties would not pursue further on any past or future obligations in respect of the joint venture and that the form of the joint venture was converted from an equity joint venture to a co-operative joint venture based on a new co-operative joint venture agreement dated 9 November 1999. Pursuant to the new agreement, the investment and registered capital of Dongguan Smartech were reduced to US\$10,000,000 and US\$6,000,000, respectively, which would be solely contributed by the Group. The registered capital of US\$6,000,000 was fully paid up by the Group. According to the terms of the co-operative joint venture agreement, the Group is entitled to all the distributable profits of Dongguan Smartech after the payment of agreed annual fees, including the payment for the use of the industrial plant on a lease basis, to the PRC joint venture partner. Upon dissolution of the joint venture, the Group is entitled to the assets of the joint venture which are contributed by the Group.

In view of the above arrangement, the directors of the Company are of the opinion that the Group was entitled to 100% of the operating results and net assets of the joint venture and, accordingly, the joint venture has been accounted for as a wholly-owned subsidiary of the Group.

NOTES TO THE FINANCIAL STATEMENTS

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15. INVENTORIES

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	1,996	2,394
Consumable tools	6,608	6,261
Work in progress	12,840	10,795
Finished goods	1,426	434
	<u>22,870</u>	<u>19,884</u>

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured	—	211
Trust receipt loans, secured	13,462	—
	<u>13,462</u>	<u>211</u>
Amounts due within one year classified as current liabilities:		
Bank loans, secured	—	(101)
Trust receipt loans, secured	(13,462)	—
	<u>(13,462)</u>	<u>(101)</u>
	<u>—</u>	<u>110</u>
Bank loans and trust receipt loans are repayable within a period of:		
On demand or not exceeding one year	13,462	101
More than one year but not exceeding two years	—	101
More than two years but not exceeding five years	—	9
	<u>13,462</u>	<u>211</u>

Details of the security for all the secured bank loans and other borrowings are set out in note 25 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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17. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	5,614	6,938
In the second year	3,464	2,672
In the third to fifth years, inclusive	1,088	620
	<hr/>	<hr/>
Total minimum finance lease payments	10,166	10,230
Future finance charges	(1,536)	(1,708)
	<hr/>	<hr/>
Total net finance lease payables	8,630	8,522
Portion classified as current liabilities	(4,749)	(5,787)
	<hr/>	<hr/>
Non-current portion	<u>3,881</u>	<u>2,735</u>

18. OTHER PAYABLES

The amount in the prior year represented payables to an independent third party for purchases of plant and machinery. It was unsecured, interest-free and was refinanced by a finance lease during the year.

19. SHAREHOLDER'S LOAN

The amount was unsecured, interest-free and was fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

20. DEFERRED TAX

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of year	450	450
Charge for the year - note 9	250	—
	<u>700</u>	<u>450</u>

The Group's provision for deferred tax represented the timing differences arising from accelerated depreciation allowances.

The Group and the Company did not have any significant unprovided deferred tax liabilities at the balance sheet date.

21. SHARE CAPITAL

	Company	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
10,000,000,000 (1999: 10,000) ordinary shares of HK\$0.005 (1999: HK\$1.00) each	<u>50,000</u>	<u>10</u>
Issued and fully paid:		
4,000,000,000 (1999: 1) ordinary shares of HK\$0.005 (1999: HK\$1.00) each	<u>20,000</u>	<u>1</u>

On 12 November 1999 (date of incorporation), the authorised share capital of the Company was HK\$10,000 divided into 10,000 shares of HK\$1.00 each, 1 share was allotted and issued at par. During the year, the following movements in the Company's authorised and issued share capital were recorded:

- (a) Pursuant to a written resolution of the sole member of the Company on 1 February 2000, the authorised share capital of 10,000 ordinary shares of HK\$1.00 each of the Company were subdivided into 100,000 ordinary shares of HK\$0.10 each by subdividing every issued and unissued ordinary share of HK\$1.00 each of the Company into 10 ordinary shares of HK\$0.10 each.
- (b) On 2 February 2000, as part of the Group reorganisation described in note 1 to the financial statements, the Company issued an aggregate of 10,000 new shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Smartech International Group Limited ("SIG"). The excess of the fair value of the shares of this subsidiary acquired, as determined on the basis of the consolidated net assets at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$58,078,484, was credited to the Company's contributed surplus, as set in note 22 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

21. SHARE CAPITAL (continued)

- (c) On 4 May 2000, the authorised share capital of the Company was increased from HK\$10,000 to HK\$50,000,000 by the creation of a further 499,900,000 shares of HK\$0.10 each. On the same day, a total of 149,989,990 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that day by way of capitalisation of the sum of HK\$14,998,999 standing to the credit of the share premium account of the Company, conditional on the share premium account being in credit as a result of the new shares issued to the public as detailed in (d) below.
- (d) On 18 May 2000, 50,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.00 each for a total cash consideration, before the related issue expenses, of HK\$50,000,000.
- (e) Pursuant to an extraordinary general meeting passed on 24 November 2000, the authorised share capital of 500,000,000 ordinary shares HK\$0.10 each of the Company were further subdivided into 10,000,000,000 ordinary shares of HK\$0.005 each by subdividing every issued and unissued ordinary share of HK\$0.10 each of the Company into 20 ordinary shares of HK\$0.005 each (the "Share Subdivision").

A summary of the above movements in the issued share capital of the Company is as follows:

	<i>Notes</i>	Number of shares issued	Par value HK\$'000
Share allotted and issued at par on incorporation		1	—
Share subdivision	(a)	9	—
Shares issued as consideration for the acquisition of the entire issued share capital of SIG	(b)	10,000	1
Shares issued and credit as fully paid conditional on the share premium account of the Company being credited as a result of the new issue of shares to the public	(c)	149,989,990	—
Pro forma share capital as at 31 December 1999		150,000,000	1
New issue on public listing	(d)	50,000,000	5,000
Capitalisation of share premium account	(c)	—	14,999
Share Subdivision	(e)	3,800,000,000	—
Share capital as at 31 December 2000		<u>4,000,000,000</u>	<u>20,000</u>

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21. SHARE CAPITAL (continued)

Pre-IPO share option plan

In recognising the contribution of certain employee (including all executive directors and five employees) of the Group to the growth of the Group and/or the listing of the shares of the Company on the GEM of the Stock Exchange, the shareholders adopted a Pre-IPO share option plan (the "Pre-IPO Plan") on 4 May 2000. Pursuant to the terms of the Pre-IPO Plan, 400,000,000 (as adjusted for the Share Subdivision) options to subscribe for shares in the Company were granted to all executive directors and five employees of the Company on 4 May 2000, at an exercise price of HK\$0.05 (as adjusted for the Share Subdivision), with a vesting period starting from 4 May 2002 up to 3 May 2005.

Share option scheme

Under the terms of the share option scheme (the "Scheme") adopted by the Company on 4 May 2000, the board of directors of the Company is authorised, at its absolute discretion, to invite any employee, including any executive directors of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be determined by the directors, but may not be less than the higher of the closing price of the shares on the GEM of Stock Exchange on the date of the grant of the option, or the average of the closing price of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options, and the nominal value of shares. The maximum number of shares in respect of which options may be granted under the Scheme, together with the 400,000,000 (as adjusted for the Share Subdivision) options so granted under the Pre-IPO Plan must not exceed 30% of the issued share capital of the Company, from time-to-time which have been duly allotted and issued. The Scheme became effective for a period of ten years commencing on the listing of the Company's shares on 18 May 2000. Further details of the Scheme are set out in the Company's prospectus dated on 9 May 2000.

No share options have been granted under the Scheme as at 31 December 2000 and up to the date of approval of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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22. RESERVES

Group

	Share premium account <i>HK\$'000</i>	Contributed surplus (Note) <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 31 December 1998 and 1 January 1999	—	31,929	—	18	5,309	37,256
Translation differences arising on consolidation of overseas subsidiaries	—	—	—	129	—	129
Retained profit for the year	—	—	—	—	19,956	19,956
Balance at 31 December 1999 and 1 January 2000	—	31,929	—	147	25,265	57,341
Translation differences arising on consolidation of overseas subsidiaries	—	—	—	(45)	—	(45)
Issue of shares - note 21	45,000	—	—	—	—	45,000
Capitalisation issue of shares - note 21	(14,999)	—	—	—	—	(14,999)
Share issue expenses	(14,328)	—	—	—	—	(14,328)
Goodwill eliminated on consolidation	—	—	(3,761)	—	—	(3,761)
Retained profit for the year	—	—	—	—	10,124	10,124
Balance at 31 December 2000	<u>15,673</u>	<u>31,929</u>	<u>(3,761)</u>	<u>102</u>	<u>35,389</u>	<u>79,332</u>

NOTES TO THE FINANCIAL STATEMENTS

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22. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus (Note) HK\$'000	Retained profits HK\$'000	Total HK\$'000
Arising on acquisition of SIG - note 21	—	58,078	—	58,078
Issue of shares - note 21	45,000	—	—	45,000
Capitalisation issue of shares - note 21	(14,999)	—	—	(14,999)
Share issue expenses	(14,328)	—	—	(14,328)
Retained profit for the year	—	—	861	861
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 2000	15,673	58,078	861	74,612
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Note:

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation set out in note 1 to the financial statements over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit from operating activities	15,671	25,961
Interest income	(1,229)	(304)
Loss on disposal of fixed assets	75	17
Provision for doubtful debts	1,400	—
Depreciation	7,919	7,282
Increase in inventories	(2,986)	(6,372)
Increase in trade receivables	(19,759)	(9,491)
Decrease/(increase) in prepayments, deposits and other receivables	(2,892)	602
Increase/(decrease) in trade and bills payables	7,317	(3,624)
Increase/(decrease) in deposits received	11,459	(7,099)
Increase/(decrease) in accrued liabilities and other payables	10,444	(159)
	<u> </u>	<u> </u>
Net cash inflow from operating activities	27,419	6,813
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium account <i>HK\$'000</i>	Interest- bearing bank and other loans <i>HK\$'000</i>	Shareholder's loan and other payables <i>HK\$'000</i>	Finance lease payables <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 31 December 1998 and 1 January 1999	—	293	—	8,813	—
Net cash inflow/(outflow) from financing activities	—	(82)	7,291	(7,441)	—
Allotment of shares	1	—	—	—	—
Inception of finance leases contracts	—	—	—	7,150	—
Share of profit	—	—	—	—	33
Balance at 31 December 1999 and 1 January 2000	1	211	7,291	8,522	33
Net cash inflow/(outflow) from financing activities	—	13,251	(3,140)	(8,501)	—
Inception of finance leases contracts	—	—	—	4,458	—
Transfer	—	—	(4,151)	4,151	—
Proceeds from shares issued on initial public offering	50,000	—	—	—	—
Share issue expenses	(14,328)	—	—	—	—
Share of loss	—	—	—	—	(2)
Balance at 31 December 2000	<u>35,673</u>	<u>13,462</u>	<u>—</u>	<u>8,630</u>	<u>31</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

	2000 HK\$'000	1999 HK\$'000
Net liabilities acquired:		
Fixed assets	213	—
Trade receivables	30	—
Prepayments, deposits and other receivables	170	—
Cash and bank balances	10	—
Accrued liabilities and other payables	(1,784)	—
	<u>(1,361)</u>	<u>—</u>
Goodwill arising on acquisition	<u>3,761</u>	<u>—</u>
Consideration	<u>2,400</u>	<u>—</u>
Satisfied by cash paid	<u>2,400</u>	<u>—</u>

The analysis of net outflow of cash and cash equivalents in respect of the acquisition is as follows:

	2000 HK\$'000	1999 HK\$'000
Cash consideration paid	2,400	—
Cash and bank balances acquired	(10)	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>2,390</u>	<u>—</u>

The subsidiaries acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit after tax.

(d) Major non-cash transactions

During the year, the following major non-cash transactions took place:

- (i) The Group entered into hire purchase arrangements in respect of assets with a total capital value at the inception of the contracts of HK\$8,609,000 (1999: HK\$7,150,000).
- (ii) The reorganisation of the Group in preparation for the public listing of the Company's shares involved the acquisition of Smartech International Group Limited by the issue of shares of the Company, further details of which are set out notes 1 and 21, respectively, to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

- (iii) In the prior year, certain assets and liabilities in respect of the business of manufacture of mold and plastic products, with an aggregate net amount of HK\$329,000, of ETL and EML were transferred to the Group in return for the issue of shares by SIG, a wholly-owned subsidiary of the Company, to the beneficial owners of ETL and EML (note 1).

24. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Capital commitment in respect of fixed assets contracted for	<u>5,099</u>	<u>—</u>
(b) Commitments under operating leases		
(i) Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring in the second to fifth years, inclusive	<u>1,234</u>	<u>961</u>
(ii) Contracted annual commitments payable in the following year in respect of the use of industrial plant in the PRC which amounted to HK\$3,009,947 (1999: HK\$5,459,331). The right to use such a industrial plant will expire beyond five years.		

In addition to the above commitments, the Group has committed to pay a sum of approximately HK\$12 million (1999: HK\$12 million) to Changan Enterprises General Company ("Changan"), the PRC co-operative joint venture partner of Dongguan Smartech and the landlord of the industrial plant, as compensation for the construction costs thereof. The payment was made by half yearly installments of approximately HK\$380,000 each for a period of 16 years commencing on 1 January 2001. In addition, the Group has also committed to pay a sum of approximately HK\$6.5 million (1999: HK\$6.5 million) to Changan as a land management fee. The payment was made by monthly installments of approximately HK\$28,000 each for a period of 5 years commencing on 1 January 2000, subject to an increment of 15% for every 5 years. The commitments will end on 21 March 2016.

(c) The Group's other commitments authorised but not contracted for amounted to HK\$1,510,000 (1999: Nil).

The Company had no significant commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

25. PLEDGE OF ASSETS

At 31 December 2000, the following assets of the Group were pledged in favour of banks for banking facilities granted to the Group:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fixed assets	—	671
Time deposits	6,300	—
	<u>6,300</u>	<u>671</u>

In addition, certain Group banking facilities of HK\$10 million (1999: HK\$3 million) are secured by guarantees with negative pledge on the present and future book debts of certain subsidiaries. The carrying value of the book debts of the subsidiaries amounted to approximately HK\$33 million. The facilities utilised as at 31 December 2000 amounted to approximately HK\$8.7 million (1999: Nil).

26. CONTINGENT LIABILITIES

The Company had the following contingent liabilities at the balance sheet date:

	2000	1999
	HK\$'000	HK\$'000
Guarantees given for banking facilities granted to and utilised by subsidiaries	<u>17,992</u>	<u>—</u>

The Group did not have any significant contingent liabilities at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

27. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

Name of Company	Nature of transactions	Notes	Group	
			2000 HK\$'000	1999 HK\$'000
ETL	Purchases of raw materials	(a)	—	1,033
	Sales of finished goods	(a)	—	8,555
EML	Purchases of raw materials	(a)	—	655
	Sales of finished goods	(a)	—	1,990
	Management fee received	(b)	—	786
Earnway (Holdings) Company Limited ("EHCL")	Management fee paid	(c)	—	946
Mass Source Investment Limited	Rentals paid	(d)	<u>612</u>	<u>318</u>

Messers. Law Man Ming and/or Tang Kwok Yuen, directors and beneficial shareholders of the Company, are directors and beneficial shareholders of the above related companies.

Notes:

- (a) The directors considered that the sale/purchase prices were determined according to the prices and conditions similar to those given to/offered by other customers/suppliers.
- (b) In the prior year, the Group provided administrative support to EML and charged a fee on a cost reimbursement basis.
- (c) In the prior year, EHCL provided office spaces and other administrative support to the Group and charged a fee on a cost reimbursements basis.
- (d) The rental expenses related to the office premises occupied by the Group. The rentals were charged at monthly amount of HK\$51,000 (1999: HK\$53,000) which was determined with reference to open market rental.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

28. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 12 January 2001, the Group proposed to acquire the entire issued share capital of and the shareholder's loan to the Sky Datamann International Limited from Asia Tele-Net and Technology Corporation Limited, an independent third party, for a consideration of HK\$140 million to be satisfied by the issue of 700 million new ordinary shares of the Company. The transaction was approved by shareholders at an extraordinary general meeting held on 21 March 2001 and was completed on 28 March 2001.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 29 March 2001.

FINANCIAL SUMMARY

OPERATING RESULTS

	Year ended 31 December		
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
TURNOVER	<u>111,472</u>	<u>122,988</u>	<u>84,616</u>
PROFIT BEFORE TAX	13,535	24,443	12,199
Tax	<u>(3,413)</u>	<u>(4,454)</u>	<u>(1,524)</u>
Profit before minority interests	10,122	19,989	10,675
Minority interests	<u>2</u>	<u>(33)</u>	<u>—</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>10,124</u>	<u>19,956</u>	<u>10,675</u>

ASSETS AND LIABILITIES

	31 December	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
TOTAL ASSETS	194,805	113,185
TOTAL LIABILITIES	(95,442)	(55,810)
MINORITY INTERESTS	<u>(31)</u>	<u>(33)</u>
NET ASSETS	<u>99,332</u>	<u>57,342</u>

Note: The summary financial information for each of the two years ended 31 December 2000 has been taken from the financial statements of the Group for the year ended 31 December 2000. The proforma combined results of the Group for the year ended 31 December 1998 have been taken from the accountants' report included in the Company's prospectus dated 9 May 2000 and include adjustments relating to the trading results in respect of the mold and plastic business of Earnway Technology Limited and Earnway Manufacturing Limited, being included therein.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the members of Smartech Digital Manufacturing Holdings Limited (the "Company") will be held at Marina I, 2/F, The Excelsior Hong Kong Hotel, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 27 April 2001 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors of the Company ("the Directors") and of the auditors for the year ended 31 December 2000;
2. To re-elect Directors and to authorise the board of Directors ("the Board") to fix the Directors' remuneration;
3. To re-appoint auditors and to authorise the Board to fix their remuneration;
4. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase ordinary shares in the capital of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares to be repurchased pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meetings; or
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held.;"

5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT

- (a) Subject to the following provisions of this Resolution, pursuant to the Rules Governing the Listing of Securities on the GEM, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meetings; or
 - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held.”; and

NOTICE OF ANNUAL GENERAL MEETING

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT the general mandate granted to the Directors pursuant to Resolution 5 above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company pursuant to the general mandate granted to the Directors of the Company to exercise the powers of the Company to purchase such shares under Resolution 4 above, provided that such amount shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this resolution.”

By Order of the Board
Leung Yuet Fung
Company Secretary

Hong Kong, 29 March 2001

Registered office:

Zephyr House
Mary Street, George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business:

9th Floor, Epoch Industrial Building
8 Cheung Ho Street
Tsing Yi, New Territories
Hong Kong

Notes:

- (a) The Register of Members of the Company will be closed from Monday, 23 April 2001 to Friday, 27 April 2001, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending the Meeting convened by the above notice, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Friday, 20 April 2001.
- (b) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- (d) An explanatory statement setting out further information regarding Resolutions 4 to 6 above will be despatched to members with the 2000 Annual Report.