

滙科

數碼製造控股有限公司

<http://www.smartechdigital.com>

SmarTech

DIGITAL MANUFACTURING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

<http://www.smartechdigital.com>

First Quarterly Report 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

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

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

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

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

This report, for which the directors of SMARTECH DIGITAL MANUFACTURING HOLDINGS LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to SMARTECH DIGITAL MANUFACTURING HOLDINGS LIMITED. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: – (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Achieved a net profit attributable to shareholders for the three-month period ended 31st March 2001 of HK\$1,004,000, representing a basic earnings per share of 0.02 cents.

BUSINESS REVIEW

The Group was dedicated to strengthen its core business. During the three months ended 31st March 2001, the Group's turnover was approximately HK\$26,173,000, representing an increase of 17% when compared with the same period in 2000. However, the Group's net profit for the period under review was affected by the increase in marketing expenses and increase in staff cost due to the recruitment of more marketing staff and engineers to cope with the future expansion of the Group. In addition, the operating result of the Group was also affected by the economic condition of its two major markets, Japan and the United States.

The Group has completed the acquisition of the entire equity interest in and shareholder's loans to Sky Datamann International Limited, an internet data center services provider in Hong Kong. The operation of the data centre is under review and the Group is aiming at developing itself as a total solution industrial application software provider (ASP).

The programme collaborated with the Department of Mechanical Engineering of the University of Hong Kong (HKU) in developing a "Professional Injection Mold System" under the support of the Hong Kong Innovation and Technology Fund is under the fine-tuned period. During the review period, certain marketing programmes have been designed for interested mould designers and manufacturers. The system will be ready for trail usage in August to September 2001.

RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March 2001 together with the unaudited comparative figures for the corresponding period in 2000 as follows:

	Notes	For the three months ended 31st March	
		2001	2000
		<i>Unaudited</i> HK\$'000	<i>Unaudited</i> HK\$'000
TURNOVER	(2)	26,173	22,458
Cost of sales		<u>(15,454)</u>	<u>(12,135)</u>
Gross profit		10,719	10,323
Other revenue		505	279
Distribution costs		(879)	(189)
Administrative expenses		(6,998)	(5,923)
Other operating expenses		<u>(1,516)</u>	<u>(1,880)</u>
PROFIT FROM OPERATING ACTIVITIES		1,831	2,610
Finance costs		<u>(609)</u>	<u>(110)</u>
PROFIT BEFORE TAX		1,222	2,500
Tax	(3)	<u>(194)</u>	<u>(397)</u>
PROFIT BEFORE MINORITY INTERESTS		1,028	2,103
Minority interests		<u>(24)</u>	<u>(51)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>1,004</u>	<u>2,052</u>
EARNINGS PER SHARE (cents)	(4)		
Basic		<u>0.02</u>	<u>0.07</u>
Diluted		<u>—</u>	<u>—</u>

(1) Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12th November 1999 under the Companies Law of the Cayman Islands. The Company's shares ("Share(s)") were listed on GEM of the Stock Exchange on 18th May 2000. The reorganization of the Group ("Group Reorganisation") prior to the listing on GEM was completed on 4th May 2000. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated results 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 periods presented rather than from the date of acquisition of the subsidiaries.

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

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

(2) Turnover

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

(3) Tax

Provision for Hong Kong profits tax has been calculated at the rate of 16 per cent for the three months ended 31st March 2001 and last corresponding periods ("Relevant Periods"). Provision for the tax of profits of subsidiaries operating elsewhere has been calculated at the rates applicable in the respective jurisdictions during the Relevant Periods, based on existing tax law, interpretations and practices in respect thereof.

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

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

(4) Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the three months ended 31st March 2001 of HK\$1,004,000 (2000: HK\$2,052,000) and the weighted average of 4,030,769,231 (2000: 3,000,000,000) ordinary shares in issue during the periods as adjusted for the Share Subdivision as described below. The weighted average number of shares used to calculate both the current and prior period 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. The weighted average number of shares used in the current period's earnings per share calculation also includes the 1,000,000,000 shares issued on the public listing.

Diluted earning per share for the three months ended 31st March 2001 and 2000 has not been calculated as no diluting events existed during these periods.

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

(5) Movement of reserves

On 28th March 2001, 700,000,000 shares were allotted and issued at HK\$0.026 (note i) per share as payment of consideration for acquisition, resulting in an increase of HK\$14,700,000 in the share premium account. Negative goodwill of HK\$11,955,000 arising on acquisition will be amortised using straight-line basis over five years.

- (i) According to the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the consideration of acquisition are measured at the market price as at the date of the exchange of shares. Hence, the cost of acquisition was calculated based on the closing price of shares of the Company as at 28 March 2001 and the number of consideration Shares. In accordance with the agreement of acquisition, the consideration per share was HK\$0.20.

DIVIDEND

The Directors do not recommend the payment of dividend for the period ended 31st March 2001 (2000: Nil).

PROSPECTS

The economic condition of Japan and the United States brings some uncertainty to the Group's business and expansion plan. The management of the Group is now reviewing its overall strategy and expansion plan and, if necessary, to streamline its business and implement certain cost saving plan. Nevertheless, the management still believes that great business opportunities will emerge after China joining WTO and the Group's marketing effort will emphasize on the establishment of business relationship with customers looking for opportunities after China joining WTO. In fact, the Group has successfully started business relationship with some international reputable companies during the first quarter 2001.

Looking forward, the Group will ensure that every effort is made to maintain its leading status and competitiveness in the manufacturing of mold products as well as to grasp every opportunity to explore its customer base. The Group will continue its studies on magnesium casting molds and environmental-friendly products. It is believed that these developments represent a promising future for the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March 2001, the particulars of the directors' interests in the securities of the Company as recorded in the register maintained by the Company under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	No. of Ordinary Shares held (Corporate Interest)	No. of Shares entitled under the share option scheme (note vi)
Mr. Law Man Ming	1,956,000,000 (note i)	80,000,000
Mr. Tang Kwok Yuen	— (note ii)	80,000,000
Mr. Yaw Chee Weng	535,500,000 (note iii)	—
Mr. Chan Ngai Sang, Kenny	— (note iv)	80,000,000
Mr. Shiro Murai	10,500,000 (note v)	—

Notes:

- (i) Mr. Law Man Ming is the beneficial owner of 42,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 84 per cent. of the issued share capital of Diamonds and Pearls Limited, which in turn holds 1,956,000,000 shares representing about 41.62 per cent. of the issued share capital of the Company.
- (ii) Mr. Tang Kwok Yuen is the beneficial owner of 8,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 16 per cent. of the issued share capital of Diamonds and Pearls Limited.
- (iii) Mr. Yaw Chee Weng is the beneficial owner of 36,555 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 73.1 per cent. of the issued share capital of Joyful Way Holdings Limited, which in turn holds 535,500,000 shares representing about 11.38 per cent. of the issued share capital of the Company.
- (iv) Mr. Chan Ngai Sang, Kenny is the beneficial owner of 13,445 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 26.9 per cent. of the issued share capital of Joyful Way Holdings Limited.
- (v) Mr. Shiro Murai is the beneficial owner of 450,000 shares in Siix Corporation, a company listed on the stock exchange in Osaka, Japan. Siix Corporation in turn holds about 3.19 per cent. of the issued share capital of the Company.
- (vi) The share options were granted under a pre-IPO share option plan, which was approved by the written resolution of all shareholders of the Company dated 4th May 2000. The share options entitle Mr. Law Man Ming, Mr. Tang Kwok Yuen and Mr. Chan Ngai Sang, Kenny each to subscribe for 80,000,000 Shares of HK\$0.005 per Share in the Company at HK\$0.05 each in various stages from 4th May 2002 to 3rd May 2005.

Save as disclosed above, at 31st March 2001, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

OUTSTANDING SHARE OPTIONS

As at 31st March 2001, the Company adopted two share option schemes, namely the Pre-IPO Share Option Plan and the Share Option Scheme.

Pre-IPO Share Option Plan

On 4th May 2000, options to subscribe for an aggregate of 20,000,000 Shares at an exercise price of HK\$1.00 per Share were conditionally been granted by the Company. Subsequent to the Share Subdivision on 24 November 2000, these options can subscribe for an aggregate of 400,000,000 Shares at an exercise price of HK\$0.05 per Share. The exercise period of these options is from 4th May 2002 to 3rd May 2005. Such options were granted to all executive directors of the Company and 5 employees of the Group. Details of such grant to the directors of the Company are set out in the section headed "Directors' Interest in Securities". Particulars of the outstanding options granted to the 5 employees of the Group are set out below:

Number of grantee	Position	Name of options Granted
Mr. Lo Wai Cheong	Director of a subsidiary of the Group	80,000,000
Ms. Ma Miu Ting	Deputy General Manager of the Group	20,000,000
Ms. Leung Yuet Fung	Financial Controller of the Group	20,000,000
Mr. Chaung Kwai Wah	Vice-President of Sales and Marketing of the Group	20,000,000
Mr. Lo Man Yiu	Production Director of a subsidiary of the Group	20,000,000

Since the date of grant of the options, no change in the number of options and exercise period is made. In addition, no option pursuant to the Pre-IPO Share Option Plan had been exercised, cancelled or lapsed during the three months ended 31st March 2001.

During the three months ended 31st March 2001, no options other than the options described above has been granted by the Company or any of its subsidiaries.

Share Option Scheme

The Company also has a Share Option Scheme conditionally adopted by a written resolution of all shareholders of the Company dated 4th May 2000. Under such scheme, full-time employees of any member of the Group, including any executive directors, can take up options to subscribe for Shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. The maximum number of Shares which can be granted under the Pre-IPO Share Option Plan and the Share Option Scheme must not exceed 30 per cent. of the issued share capital of the Company from time to time. No option had been granted under the Share Option Scheme during the period from 4th May 2000 to 31st March 2001.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

According to the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company as at 31st March 2001:

Name	Number of Shares	Percentage of holding
Diamonds and Pearls Limited (<i>note i</i>)	1,956,000,000	41.62
Mr. Law Man Ming (<i>note i</i>)	1,956,000,000	41.62
Joyful Way Holdings Limited (<i>note ii</i>)	535,500,000	11.38
Mr. Yaw Chee Weng (<i>note ii</i>)	535,500,000	11.38
Fairway Int'l Limited (<i>note iii</i>)	700,000,000	14.90

Notes

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

- (ii) Joyful Way Holdings Limited is beneficially owned as to approximately 73.1 per cent, by Highway Enterprises Limited which is wholly owned by Mr. Yaw Chee Weng (a non-executive director of the Company) and as to approximately 26.9 per cent. by Top Rank Enterprises Limited which is wholly owned by Mr. Chan Ngai Sang, Kenny (an executive director of the Company).
- (iii) Fairway Int'l Limited is wholly owned by Asia Tele-Net and Technology Corporation Limited, the shares of which are currently listed and dealt in on the Main Board of the Stock Exchange of Hong Kong Limited.

On 2nd February 2001, Diamonds and Pearls Limited confirmed to the Board that 140 million Shares were transferred from the existing escrow agent and 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 per cent. by Mr. Law Man Ming and as to 16 per cent. by Mr. Tang Kwok Yuen respectively. Mr. Law Man Ming and Mr. Tang Kwok Yuen are also directors of Honson Corporation Limited.

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 31st March 2001, the following persons were the management shareholders of the Company and were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who are able, as a practical matter, to direct or influence the management of the Company:

Name	Percentage of holding
Diamonds and Pearls Limited	41.62 per cent.
Joyful Way Holdings Limited	11.38 per cent.
Highway Enterprises Limited	8.32 per cent.
Top Rank Enterprises Limited	3.06 per cent.
Mr. Law Man Ming	34.96 per cent.
Mr. Tang Kwok Yuen	6.66 per cent.
Mr. Yaw Chee Weng	8.32 per cent.
Mr. Chan Ngai Sang, Kenny	3.06 per cent.
Mr. Shiro Murai	0.22 per cent.
Fairway Int'l Limited	14.90 per cent.

COMPETING INTEREST

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

SPONSOR'S INTERESTS

As at 31st March 2001, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial Capital") has confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any members of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group.

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

AUDIT COMMITTEE

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31st March 2001.

By order of the board

Law Man Ming

Chairman

Hong Kong, 14th May 2001