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DIGITAL MANUFACTURING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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Interim Report 2001

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

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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.

HIGHLIGHTS

For the six months ended 30th June 2001, the Group has achieved a turnover of HK\$50,962,000. Net loss for the period were approximately HK\$9,302,000 largely due to operating costs incurred for the newly acquired data centre.

BUSINESS REVIEW

General

The unaudited turnover of Smartech Digital Manufacturing Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June 2001 was HK\$50,962,000, representing an increase of 3% when compared with the same period in 2000. Net loss for the six months ended 30th June 2001 was HK\$9,302,000 compared with the profit attributable to shareholders of HK\$7,004,000 for the six months ended 30th June 2000. The results of the Group was largely affected by significant operating costs incurred by Sky Datamann (Hong Kong) Limited, an internet data center services provider in Hong Kong which was acquired by the Group at the end of March 2001. Its results were first time consolidated into the Group's results in this quarter.

Tooling and moulding business

Despite negative market sentiment in our major markets, mainly Japan and the United States, tremendous effort has been placed in diversifying our target markets to maintain the tooling and moulding business with a stable turnover of HK\$24,789,000 for the three month ended 30th June 2001 as compared with the last quarter of HK\$26,173,000. However, the gross profit margin was avoidably affected by the negative market sentiment and the gross profit margin was decreased from 41% in the last quarter to 39% for the three month ended 30th June 2001.

Data center business

The operation of the data center was still in early stage of development, a loss of HK\$10,327,000 was reported in the current period due to the substantial operating costs incurred and the lay off of staff in order to streamline its operation. The Group has implemented a series of retrenchment plan for the data center and the operating costs of the data center will be significantly decreased in the second half of 2001.

Professional Injection Mold System

The "Professional Injection Mold System" programme jointly developed by the Department of Mechanical Engineering of the University of Hong Kong and the Group with the support of the Hong Kong Innovation and Technology Fund is on schedule and trial usage is expected to be ready in September 2001.

RESULTS

The board of directors (the "Board") of the Company announces the unaudited consolidated results of the Group for the three months and six months ended 30th June 2001 together with the unaudited comparative figures for the corresponding period in 2000 as follows:

	Notes	For the three months ended 30th June		For the six months ended 30th June	
		2001	2000	2001	2000
		<i>Unaudited HK\$'000</i>	<i>Unaudited HK\$'000</i>	<i>Unaudited HK\$'000</i>	<i>Unaudited HK\$'000</i>
TURNOVER	(2)	24,789	27,007	50,962	49,465
Cost of sales		(14,920)	(11,866)	(30,374)	(24,001)
Gross profit		9,869	15,141	20,588	25,464
Other revenue		143	254	648	533
Distribution costs		(779)	(385)	(1,658)	(574)
Administrative expenses		(16,849)	(5,997)	(23,847)	(11,920)
Other operating expenses		(2,347)	(2,192)	(3,863)	(4,072)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(9,963)	6,821	(8,132)	9,431
Finance costs		(346)	(873)	(955)	(983)
PROFIT/(LOSS) BEFORE TAX		(10,309)	5,948	(9,087)	8,448
Tax	(3)	—	(959)	(194)	(1,356)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(10,309)	4,989	(9,281)	7,092
Minority interests		3	(37)	(21)	(88)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(10,306)</u>	<u>4,952</u>	<u>(9,302)</u>	<u>7,004</u>
EARNINGS/(LOSS) PER SHARE (cents)	(4)				
Basic		<u>(0.22)</u>	<u>0.14</u>	<u>(0.21)</u>	<u>0.22</u>
Diluted		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

(1) Group reorganisation and basis of preparation

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

No provision for profits tax has been made as the Group had no assessable profits arising in Hong Kong or elsewhere for the three months ended 30th June 2001. In last corresponding periods, provision for Hong Kong profits tax has been calculated at the rate of 16 per cent; whereas provision for profits tax of subsidiaries operating elsewhere has been calculated at the rates applicable in the respective jurisdictions based on existing tax law, interpretations and practices in respect thereof. No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation assets is uncertain.

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 were no significant unprovided deferred tax for the Relevant Periods.

(4) Earnings/(loss) per Share

The calculation of basic loss per Share (2000: basis earnings per Share) is based on the net loss from ordinary activities attributable to shareholders for the six months ended 30th June 2001 of HK\$9,302,000 (2000: net profit from ordinary activities attributable to shareholders of HK\$7,004,000) and for the three months ended 30th June 2001 of HK\$10,306,000 (2000: net profit from ordinary activities attributable to shareholders of HK\$4,952,000) and the weighted average of 4,367,403,315 and 4,700,000,000 (2000: 3,241,758,242 and 3,483,516,484) ordinary shares in issue during the 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.

Diluted earnings/(loss) per Share for the six months and three months ended 30th June 2001 and 2000 has not been calculated as no diluting events existed during these periods.

DIVIDEND

The Directors do not recommend the payment of dividend for the period ended 30th June 2001 (2000: Nil).

PROSPECT

Diversification of markets

In order to avoid the reliance on a few markets and to capture the opportunities arising after China joining WTO, the Group has speed up its progress in developing new markets, in particular China. The Group has successfully established business relationship with several new customers in the northern part of China. The Group is confident on the business growth in the near future, in particular for the China market, since high precision moulding will be in great demand as a result of higher quality of products are required from the Chinese manufacturers in order to face the competition from the foreign manufacturers.

Plan for the negative market sentiment

With the negative market sentiment, the Group will continue to strengthen its core business and will keep reviewing its development path so as to maintain its competitiveness for future opportunities, if so arising.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

*Business objective of the year 2001
as disclosed in the prospectus dated
9th May 2000 (the "Prospectus")*

Actual business progress up to 30th June 2001

Plastic injection molds

Business plans

To purchase accessories to streamline the production line

Machines were acquired and installed in the year 2000. The degree of precision and production capacity has been increased in the current period.

Plastic injection products

Business plans

To upgrade the existing equipment to improve efficiency

The improvement plan was implemented in year 2000. The efficiency in the finishing and printing processes has been increased in the current period.

Bottle blow molds

Business plans

To purchases 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 and full scale operation has been ready to start.

Magnesium casting molds

Business plans

To purchase machinery and equipment for production

The study of the production plan of magnesium casting molds was in its final stage. Further investment in the machinery and equipment will be injected when the study completed.

To upgrade the existing die-casting machinery for magnesium casting molds

Upgrading of the existing machinery will be made when the study is completed.

To focus on research and development and to set up a new department for production

A new department has been set up for research and development works and for future production.

HK\$3.2 million will be applied

About HK\$1 million was spent on the development of new department and research works.

Plastic double injection

Business plans

To purchase machinery for production

Due to the negative market sentiment in retail industry which affected the demand of such products, the plan to purchase machinery is on hold.

HK\$4 million will be applied

As the plan is on hold, investment in the project has been postponed until the recovery of market. The fund has been deposited in banks in Hong Kong.

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

To advertise and promote the Group's products

HK\$1.2 million will be applied

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.

Intensive marketing campaigns for advertising and promoting the Group's products have been launched.

HK\$0.4 million was spent on marketing activities. Positive response has been received from both overseas and Chinese customers despite of the uncertainty in economic situation. HK\$0.8 million will be spent on the launch of intensive marketing campaigns and on the expansion of marketing department in next quarter.

Design and development

Business plans

To upgrade application softwares

HK\$3.2 million will be applied

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 market this year.

HK\$1.4 million was spent on the upgrading of softwares and on the expansion of the design and development department.

Barring unforeseeable circumstances and based on the use of proceeds up to 30th June 2001, 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.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 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 41.61 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 11.39 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 30th June 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 30th June 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".

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 six months ended 30th June 2001.

During the six months ended 30th June 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 30th June 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 30th June 2001:

Name	Number of Shares	Percentage of holding
Diamonds and Pearls Limited (<i>note i</i>)	1,956,000,000	41.61
Mr. Law Man Ming (<i>note i</i>)	1,956,000,000	41.61
Joyful Way Holdings Limited (<i>note ii</i>)	535,500,000	11.39
Mr. Yaw Chee Weng (<i>note ii</i>)	535,500,000	11.39

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 Mr. Yaw Chee Weng (a non-executive director of the Company) and as to approximately 26.9 per cent. by Mr. Chan Ngai Sang, Kenny (an executive director of the Company).

As at 30th June 2001, the Shares held by Diamonds and Pearls Limited were 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 30th June 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:

	Percentage of holding
Diamonds and Pearls Limited	41.61 per cent.
Joyful Way Holdings Limited	11.39 per cent.
Mr. Law Man Ming	34.95 per cent.
Mr. Tang Kwok Yuen	6.66 per cent.
Mr. Yaw Chee Weng	8.33 per cent.
Mr. Chan Ngai Sang, Kenny	3.06 per cent.
Mr. Shiro Murai	0.22 per cent.
Fairway Int'l Limited (<i>note i</i>)	5.91 per cent.

Note

- (i) 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.

COMPETING INTEREST

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

SPONSOR'S INTERESTS

As at 30th June 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 Mr. Lee Kwan Hung.

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 six months ended 30th June 2001.

By order of the board
Law Man Ming
Chairman

Hong Kong, 13th August 2001