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SmarTech

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

<http://www.smartechdigital.com>

Third 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.

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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.

For the nine months ended 30 September 2001, the Group has achieved a turnover of HK\$80,855,000. Net loss for the period was approximately HK\$14,698,000 largely due to the net loss of HK\$17,380,000 incurred by the data centre business.

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 nine months ended 30 September 2001 was HK\$80,855,000, representing an increase of 13% when compared with the same period in 2000. Net loss for the nine months ended 30 September 2001 was HK\$14,698,000 compared with the profit attributable to shareholders of HK\$10,043,000 for the same period in 2000. The results of the Group was largely affected by the net loss of HK\$17,380,000 incurred by Sky Datamann (Hong Kong) Limited, an internet data centre services provider in Hong Kong which was acquired by the Group at the end of March 2001.

Tooling and plastic injection business

Following the tremendous effort placed in development of new markets, in particular China, positive results began to reflect in this quarter. Turnover of HK\$29,770,000 was achieved by tooling and plastic injection business for the three months ended 30 September 2001, representing an increase of 20% when compared with the last quarter of HK\$24,789,000. However, the gross profit margin continued to decline as a result of poor economic situation and the Group receiving price pressure from the market.

After the incidents in September in the United States, one of our major markets, some orders from the United States were either on hold, or delayed. In order to avoid reliance on the market in the United States, the Group is planning to conduct an intensive marketing plan to further develop the China market. The Group is also looking for cooperative opportunities in China so as to strengthen its presence in China and to capture the economic growth in China.

Data centre business

As a result of the implementation of a series of retrenchment plan for the data centre, the operating cost of the data centre has gradually decreased to a minimum level to maintain its operation.

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 support of the Hong Kong Innovation and Technology Fund is on schedule. Several exhibitions and seminars have been taken to introduce such system to industrialists in Hong Kong and China. The trial usage of the first version is expected to be launched at the end of 2001.

RESULTS

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

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2001	2000	2001	2000
		Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
TURNOVER	(2)	29,893	21,993	80,855	71,458
Cost of sales		(20,137)	(11,340)	(50,511)	(35,341)
Gross profit		9,756	10,653	30,344	36,117
Other revenue		2,461	2,783	3,109	3,316
Distribution costs		(942)	(275)	(2,600)	(849)
Administrative expenses		(14,373)	(6,790)	(38,220)	(18,710)
Other operating expenses		(1,645)	(1,567)	(5,508)	(5,639)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(4,743)	4,804	(12,875)	14,235
Finance costs		(265)	(640)	(1,220)	(1,623)
PROFIT/(LOSS) BEFORE TAX		(5,008)	4,164	(14,095)	12,612
Tax	(3)	(403)	(1,139)	(597)	(2,495)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(5,411)	3,025	(14,692)	10,117
Minority interests		15	14	(6)	(74)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,396)	3,039	(14,698)	10,043
EARNINGS/(LOSS) PER SHARE (cents)					
Basic	(4)	(0.11)	0.08	(0.33)	0.29
Diluted	(4)	—	—	—	—

Notes:

(1) Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 November 1999 under the Companies Law of the Cayman Islands. The Company's shares ("Share(s)") were listed on GEM of the Exchange on 18 May 2000. The reorganisation of the Group ("Group Reorganisation") prior to the listing on GEM was completed on 4 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 nine months and three months ended 30 September 2001 and the last corresponding periods for group companies which have assessable profits arising in Hong Kong. Provision for the tax of profits of subsidiaries operating elsewhere has been calculated at the rates applicable in the respective jurisdictions during the current and the last corresponding 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 nine months and three months ended 30 September 2001 and the last corresponding periods, no provision for PRC income tax has been made in the accounts as the PRC subsidiary had no assessable income for the current and the last corresponding periods.

There was no significant unprovided deferred tax for the current and the last corresponding periods.

(4) Earnings/(loss) per Share

The calculation of basic loss per Share (2000: basic earnings per Share) is based on the net loss from ordinary activities attributable to shareholders for the nine months ended 30 September 2001 of HK\$14,698,000 (2000: net profit from ordinary activities attributable to shareholders of HK\$10,043,000) and for the three months ended 30 September 2001 of HK\$5,396,000 (2000: net profit from ordinary activities attributable to shareholders of HK\$3,039,000) and the weighted average of 4,479,487,179 and 4,700,000,000 (2000: 3,496,350,365 and 4,000,000,000) 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 1 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 24 November 2000.

Diluted earnings/(loss) per Share for the nine months and three months ended 30 September 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 30 September 2001 (2000: Nil).

PROSPECTS

For the North America market, the overall market sentiment is not optimistic in particular following the incidents in the United States in September. With the poor market sentiment, the Group is now continuing to diversify its markets, in particular China, and control expenses so as to maintain its competitiveness. After successfully established business relationship with several new customers in the northern part of China in the last quarter, the Group will continue to place more effort in expand the market share in China.

Looking forward, the management 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 new high growth potential businesses and expand its customer base to bring significant growth prospects to the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 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 150,000,000 shares representing 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 4 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 4 May 2002 to 3 May 2005.

Save as disclosed above, at 30 September 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 30 September 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 4 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 4 May 2002 to 3 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 nine months ended 30 September 2001.

During the nine months ended 30 September 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 4 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 4 May 2000 to 30 September 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 30 September 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).

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 30 September 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	41.61
Joyful Way Holdings Limited	11.39
Mr. Law Man Ming	34.95
Mr. Tang Kwok Yuen	6.66
Mr. Yaw Chee Weng	8.33
Mr. Chan Ngai Sang, Kenny	3.06
Mr. Shiro Murai	0.22
Fairway Int'l Limited (<i>note i</i>)	5.29

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 Exchange.

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 30 September 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 21 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 18 May 2000 to 31 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 nine months ended 30 September 2001.

By order of the Board
Smartech Digital Manufacturing Holdings Limited
Tang Kwok Yuen
Chairman

Hong Kong, 13 November 2001

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