滙科 數碼製造控股有限公司
(於開曼群島註冊成立之有限公司)

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

2001 Annual Report

SmarTech

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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, other than Mr. Law Man Ming who is not contactable, 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.

Contents

Corporate Information

EXECUTIVE DIRECTORS

Tang Kwok Yuen *(Chairman)*
Chan Ngai Sang, Kenny
Law Man Ming

NON-EXECUTIVE DIRECTORS

Yaw Chee Weng *(Vice-Chairman) (i)*
Shiro Murai *(ii)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yan Cheong
Lee Kwan Hung, Eddie *(iii)*
Yuen Kim Hung, Michael *(iv)*

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

http://www.smartechdigital.com

COMPLIANCE OFFICER

Chan Ngai Sang, Kenny

QUALIFIED ACCOUNTANT

Yan Wai Yin

COMPANY SECRETARY

Leung Yuet Fung

AUTHORISED REPRESENTATIVES

Chan Ngai Sang, Kenny
Leung Yuet Fung

MEMBERS OF THE AUDIT COMMITTEE

Chan Yan Cheong
Lee Kwan Hung, Eddie *(iii)*
Yuen Kim Hung, Michael *(iv)*

STOCK CODE

8068

AUDITORS

Ernst & Young

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

Notes: (i) Mr. Yaw Chee Weng resigned on 5 March 2002.

(ii) Mr. Shiro Murai resigned on 8 March 2002.

(iii) Mr. Lee Kwan Hung, Eddie resigned on 26 March 2002.

(iv) Mr. Yuen Kim Hung, Michael was appointed on 24 April 2002.

Chairman's Statement

On behalf of the board of directors (the "Board") 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 2001.

BUSINESS REVIEW

Overall

The turnover of the Group for the year ended 31 December 2001 amounted to HK$102,089,000, representing a decrease of 8% over the turnover of approximately HK$111,472,000 for the year ended 31 December 2000. The decrease was mainly due to dropping in sales orders from customers and receiving price pressure from the market owing to the deteriorating economic conditions.

The net loss attributable to shareholders for the year ended amounted to approximately HK$77,620,000 compared to net profit attributable to shareholders of HK$10,124,000 for the year ended 31 December 2000. The results of the Group was largely affected by the net loss of HK$34,876,000 incurred by the data centre business and the Group has made various provisions totalling HK$28,171,000 in 2001.

Tooling and Plastic Injection Business

The business in 2001 was inevitably affected by the global economic downturn in particular the fourth quarter of year 2001 as a result of the "911" incidents in the United States. In order to avoid the reliance on a few markets and to capture the opportunities arising after China joining the WTO, the Group has put tremendous effort in developing the China market. The management is confident on the business growth in the near future, in particular, for the China market, since high precision molding will be in great demand as a result of higher quality of products being required from the Chinese manufacturers in order to face the competition from the foreign manufacturers. The sales orders in China market for molding business has been increasing gradually during the year.

After China joining the WTO, domestic/export sales ratio restriction will be released. The Group has planned to make application from the relevant authorities for the approval of the release of domestic/export sales ratio restriction. It is believed that significant growth will be achieved following the development of China market.

During the year, the Group has started contact with several reputable corporations in establishing business relationship. Some of the potential customers based in North America are planning to lower their production costs by sourcing quality supplies in China and to develop China market. The Group was identified as one of their potential suppliers with quality in China. The Group has already demonstrated its advanced technology and the production capacity to these potential customers and discussions on potential orders have begun. The Group with its Dongguan production plant cooperating closely with its engineering and sales team in Canada is able to provide around the clock service and efficient after sales services to these potential customers in North America. Accordingly, the Group is confident in securing sales orders from these potential customers.

Data Centre Business

As disclosed in the announcement of the Company dated 2 January 2002, the Group has ceased its data centre business due to the installation of unauthorised building works which are subject to be ordered for removal by the relevant authority. As substantial investment costs were expected to be incurred to rectify the said unauthorised building works in order to enable the Group to continue the business of the data centre, the Group finally decided to abandon the data centre business in December 2001 in order to minimize the financial impact to the Group.

Chairman's Statement

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. Several exhibitions and seminars have been arranged to introduce the system to industrialists in Hong Kong and China during the year. The trial usage of the first version is expected to be launched in the second quarter of year 2002.

PROSPECTS

For the North American market, the overall market sentiment is less optimistic in particular following the "911" incidents in the United States. In this connection, the Group is now continuing to diversify its markets, in particular China, and control expenses so as to maintain its competitiveness. Following the successful establishment of business relationship with several new customers in the northern part of China in 2001, the Group will continue to place more effort in expanding its 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 and expand its customer base to bring significant growth prospects to the Group.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to all supportive customers of the Group and to all employees for their continuing dedication and efforts throughout 2001.

By order of the Board
Tang Kwok Yuen
Chairman

Hong Kong, 30 April 2002

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year ended 31 December 2001 amounted to HK$102,089,000 (2000: HK$111,472,000). During the year, revenue generated from mold products accounted for 75% of the Group's turnover while plastic products contributed the remaining 25%.

A majority of the Group's turnover is derived from the mold products. For the year ended 31 December 2001, mold products reported a turnover of HK$76,849,000, representing a moderate decrease of 3% as compared with that of previous year. The decrease was mainly due to the dropping of selling price by average 5% - 10% when compared with that for the year ended 31 December 2000.

Turnover from plastic products experienced a decrease of 22% between the two years. Such decrease was mainly due to dropping of sales orders from customers under the negative market sentiment.

Due to the slow recovery of the market, the Group's sales in aggregate decreased by 8% in 2001 when compared with last year. Especially, the major sales region of the Group in year 2000 — Hong Kong and Taiwan has decreased by 21% and 99.7% respectively. On the other hand, the Group had good performance in Japan and China where the sales in these two regions have increased by 168% and 172% respectively over the same period last year. In year 2001, Hong Kong, Japan, United States and Canada were the major sales regions of the Group. The sales from these regions constituted over 80% of the Group sales.

Gross Profit Margin

The gross profit margin of the Group kept declining to 26% on average was mainly due to substantial drop in turnover in the fourth quarter of year 2001 following the "911" incidents in the United States, where certain direct overheads of the Group maintained in the same level since the Group has to bear certain fixed overheads such as direct labour cost, factory rental and depreciation expenses.

Administrative Expenses

Total administrative expenses of the Group increased to HK$50,157,000 in 2001 compared to HK$28,149,000 in 2000 which was mainly due to administrative expenses of HK$13,028,000 incurred by data centre business and the increase in staff employed in both production and marketing department which resulted in an increase of salary and allowances and other related expenses by approximately HK$6,000,000 as compared with that of last year.

Other Operating Expenses

Other operating expenses increased to HK$31,990,000 as compared to HK$4,733,000 in the last year. The increase was mainly due to the provision for doubtful debts, impairment of goodwill and full provision made against the Group's investments. Other operating expenses maintained a similiar level to that of the last year if excluding the effect of the provisions made for 2001.

Net Loss from Ordinary Activities Attributable to Shareholders

The Group recorded a net loss after taxation and minority interests of HK$77,620,000 for 2001, whereas a net profit of HK$10,124,000 was recorded for the year ended 2000. The loss in 2001 was primarily the result of various provisions of HK$28,171,000 and the net losses of HK$34,876,000 incurred by the data centre business for the nine-months period since the Group's acquisition thereof.

Management Discussion and Analysis

Comments on segment business

i) Mold business

To maintain its leading position in mold industry, the Group has made improvement in production facilities during the year. In particular, the high precision molding will be in great demand as a result of higher quality of products being required from the Chinese manufacturers. With China joining the WTO, the Group has started to put more effort in developing the China market. Strong sales and marketing team has been built up for procuring more sales order for mold business in 2001 so as to improve the services management by raising its standards of customer services and satisfaction.

ii) Plastic business

To meet customers' requirement towards price, quality, service, were more stringent than ever and customers became more and more cost conscious, in the current year, the Group has made HK$4,855,000 investment in machineries for improving the production efficiency. In addition, the Group has expanded the divisions of silk screening and spraying to facilitate the provisions of one-stop services to customers. Given the intense competition, the Group will continue to enlarge its revenue by diversifying its customer base, raise its profit margin by develop higher margin products such as double injection products and focus on cost control.

iii) Data Centre

After the cessation of the Group's data centre, the Group expects no further losses to be incurred from this segment.

The Group will continue to focus on the development of its core business in mold and plastic products manufacturing in future.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group generally financed its operations and investing activities with internally generated cash flows, balance of proceeds from IPO, bank loans and trade facilities granted by bankers.

For the Group's mold business, deposits received from customers facilitate the funding of the operation. As a result, the demand of banking facilities is not substantial. As at 31 December 2001, out of approximately HK$8 million banking facilities granted by the Group's major bankers, the utilised facilities were approximately HK$5,682,000, consisting of short term borrowings of approximately HK$1,869,000, bills payable of approximately HK$1,108,000 and trust receipt loans of approximately HK$2,705,000. The above bank borrowings became due and payable within three months after year end. The Group's cash-to-borrowing ratio was 1.25 as at 31 December 2001 represented by cash and bank balances of HK$5,734,000 divided by interest-bearing bank borrowings totalling HK$4,574,000. The Group's gearing ratio was 179% as at 31 December 2001, representing total liabilities of HK$78,146,000 divided by capital employed of HK$43,583,000.

In the foreseeable future, the Group intends to finance its operations with the fund injected from new potential investors, new bank facilities and deposits received from customers.

Capital Structure

During the year, the Company issued 700,000,000 new ordinary shares with par value of HK$0.005 each at a fair value of HK$0.026 by way of consideration for the acquisition of 100% equity interest in and shareholders' loans to Sky Datamann International Limited ("Sky Datamann International"). Save as the aforesaid, no material change in the capital structure of the Company compared to last year.

Significant Investments

Apart from investments disclosed under note 8 to the financial statements "Other Operating Expenses", there was no other significant investment as at 31 December 2001. It is the Group's treasury policy to manage its disposals and acquisition of investment depending on the market environment and the availability of funding.

Material Acquisition and Disposals of Subsidiaries

As mentioned above, the Company issued 700,000,000 new ordinary shares for the acquisition of the entire equity interest in and shareholder's loans to Sky Datamann International during the year. Sky Datamann International is an investment holding company and wholly and directly owns Sky Datamann (Hong Kong) Limited ("Sky Datamann"), which was engaged in the provision of an internet server co-location centre in Hong Kong. In the current year, Sky Datamann has ceased its business as stated in the announcement of the Company dated 2 January 2002. There was no other material acquisition and disposals of subsidiaries of the Company during the year.

Employee Information

As at 31 December 2001, the Group had 566 full-time employees. Staff costs, excluding director's remuneration but including amount capitalized as work-in-progress was HK$28,153,000 for the year. Employees were paid at market remuneration with bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training.

Management Discussion and Analysis

Charges on Assets

With the net book value of fixed assets of the Group of HK$77,582,000, the net book value of fixed assets under finance lease amounted to HK$16,961,000 as at 31 December 2001. Apart from the finance lease arrangement, there were no charges on assets as at 31 December 2001.

Plans for Material Investments or Capital Assets

The Group's future plans for material investments or capital assets shall be in line with what have been stated in the section of "Business Objectives and Implementation Plans" of the prospectus of the Company dated 9 May 2000 (the "Prospectus"). To date, there have been no other plans for material investments or capital assets that will require sources of funding from the internal resources of the Group in the coming year.

Exposure to Exchange Rate Fluctuations

During the year ended 31 December 2001, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in Hong Kong Dollars, US Dollars, Canadian Dollars and Renminbi. The Group conducted its business transactions principally in these four type of currencies, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Contingent Liabilities

There was no significant contingent liabilities of the Group as at 31 December 2001.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Tang Kwok Yuen, aged 49, one of the founders of the Group and is the Chairman of the Company. He is responsible for the overall policy setting, management, and strategic development of the Group. He holds a master 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 over 20 years' experience in the molding and plastic industries.

Mr. Chan Ngai Sang, Kenny, aged 37, joined the Group in 1999 and is an executive director and the compliance officer of the Company 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.

Mr. Law Man Ming, aged 46, is one of the founders of the Group and an executive director of the Company. He is responsible for the business development of the Group. However, the Company has difficulty in reaching him since mid of January 2002.

Independent Non-Executive Directors

Dr. Chan Yan Cheong, aged 48, is an independent non-executive director and joined the Group in 1999. 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.

Mr. Yuen Kim Hung, Michael, aged 41, is an independent non-executive director and joined the Group in April 2002. Mr. Yuen holds a professional diploma in accountancy from the Hong Kong Polytechnic University and is a member of the Hong Kong Society of Accountants and Certified General Accountants Association of Ontario. He is also a fellow member of Association of Chartered Certified Accountants. He has more than 10 years of accounting, tax and auditing experience. He is currently practising as a Certified Public Accountant in Hong Kong.

SENIOR MANAGEMENT

Mr. Richard W. C. Lo, aged 43, is the director of Smartech Limited, a wholly-owned subsidiary of the Company, in Canada. He is responsible for the overall management and development for the Group's North American division. He has more than 19 years' experience in sales and marketing, and has a successful track record in building business relationships with North American and European customers. He joined the Group in 1999.

Ms. Yan Wai Yin, aged 32, is the Group's Financial Controller. She is in charge of financial management and accounting function. Ms. Yan holds a degree of bachelor of arts in accountancy from the Hong Kong Polytechnic University and is a member of Hong Kong Society of Accountants and Association of Chartered Certified Accountants. Ms. Yan has worked for an international accounting firm in Hong Kong and also has held senior positions in companies listed in Main Board of the Exchange prior to joining the Group in April 2001. She has an extensive experience in financial management, accounting and auditing field.

Biographical Details of Directors and Senior Management

Mr. Cheung Kim Hung, aged 34, is the General Manager of Dongguan Smartech Tooling and Plastics Limited, a wholly-owned subsidiary of the Company. Mr. Cheung is responsible for the overall management in the Dongguan factory and sales and marketing for the Group's China division. He has more than 10 years' experience in developing markets in Asia Pacific Region and has a wide experience in the tooling and plastic industries prior to joining the Group in 2000.

Ms. Leung Yuet Fung, aged 30, is the Company Secretary of the Company. 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 for an international accounting firm for five years prior to joining the Group in 1999.

Mr. Law Kwan Pui, aged 31, is the Operation Manager in the Group's Design and Development Team and joined the Group in 1999. 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 the Hong Kong Polytechnic University.

Comparison of Business Objectives with Actual Business Progress

Business objectives as disclosed in the Prospectus	Actual business progress up to 31 December 2001
PLASTIC INJECTION MOLDS	
Business plans	
To purchases 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.
HK$3 million will be applied	HK$3 million has been spent on the purchase of machine in year 2000 to enhance the productivity.
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.
HK$4 million will be applied	HK$4 million has been spent in year 2000 on the purchase of machine and expand the existing department for production.
MAGNESIUM CASTING MOLDS	
Business plans	
To purchase machinery and equipment for production	The study of the production plan of magnesium casting molds was completed. Investment in machines and equipment were made in year 2001.
To upgrade the existing die-casting machinery for magnesium casting molds	Existing die-casting machinery has been upgraded to facilitate the magnesium casting molds process.
To focus on research and development and set up a new department for production	A new department has been set up for research and development and for future production.
HK$11 million will be applied	HK$8.5 million had been invested, out of which HK$5.3 million was planned to invest in the first quarter of year 2002. With the current negative market sentiment, the Group has speeded up its progress in development of the magnesium casting mold in order to expand the current markets as well as to capture the opportunities arising after China joining the WTO. The early application of fund budgeted for year 2002 was mainly made on the purchase of HK$2.3 million machinery and HK$3 million in research and development.

Comparison of Business Objectives with Actual Business Progress

Business objectives as disclosed in the Prospectus	Actual business progress up to 31 December 2001
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.
HK$3 million will be applied	HK$3 million has been spent on the upgrading of existing equipment in year 2000 to enhance efficiency.
PLASTIC DOUBLE INJECTION PRODUCTS	
Business plans	
To purchase machinery for production	The Group has completed the study of the production plan of plastic double injection products. Such plan has been implemented and machines have been purchased for production.
HK$4 million will be applied	HK$4 million out of the listing proceed has been spent in year 2001 on the purchase of machinery for production.
DESIGN AND DEVELOPMENT	
Business plans	
To upgrade application softwares	Suitable software and hardware were identified and have been 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 market in year 2002.
HK$5 million will be applied	HK$3.5 million has been spent on the upgrading of application software and on the expansion of the design and development department. In addition, HK$1.5 million planned to use in year 2002 was invested in year 2001 to cope with the development of advanced technique on plastic double injection molds production process.

Comparison of Business Objectives with Actual Business Progress

Business objectives as disclosed in the Prospectus	Actual business progress up to 31 December 2001
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 China for expansion and strengthening of its distribution network	Sales offices have been set up in Beijing and Shanghai to expand and strengthen the distribution network.
To advertise and promote the Group's products	Intensive marketing campaigns for advertising and promoting the Group's products have been launched.
HK$5 million will be applied	HK$3 million has been spent on marketing activities and set up of sales offices in China. In addition, in order to capture the opportunities arising following China's joining the WTO in year 2001, fund for setting up offices in China and marketing expenses of HK$2 million that planned to use in year 2002 has been invested in year 2001 to accelerate the China markets development plan.
OTHERS	
Business plans	
To use as general working capital	
HK$4 million will be applied	HK$4 million has been allocated to working capital in year 2000.

Use of Proceeds

The business objectives as disclosed in the Prospectus and the status of listing proceeds as at 31 December 2001 are as follows:

	Total amount to be used up to 31 December 2002 *HK$*	Amount planned to be used up to 31 December 2001 *HK$*	Actual amount used up to 31 December 2001 *HK$*
Plastic injection molds			
To purchases accessories to streamline the production line	3,000,000	3,000,000	3,000,000
Bottle blow molds			
To purchases machinery and equipment for production To expand the existing department for production	4,000,000	4,000,000	4,000,000
Magnesium casting molds			
To purchase machinery and equipment for production To upgrade the existing die-casting machinery for magnesium casting molds To focus on research and development and set up a new department for production	11,000,000	3,200,000	8,500,000
Plastic injection products			
To upgrade the existing equipment to improve efficiency	3,000,000	3,000,000	3,000,000
Plastic double injection products			
To purchase machinery for production	4,000,000	4,000,000	4,000,000
Design and development			
To upgrade application softwares	5,000,000	3,500,000	5,000,000
Marketing and sales			
To set up new sales offices in the mid West/ West coast of the US and in some major cities of the China for expansion and strengthening of its distribution network To advertise and promote the Group's products	5,000,000	3,000,000	5,000,000
Others			
To use as general working capital	4,000,000	4,000,000	4,000,000
TOTAL	39,000,000	27,700,000	36,500,000

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. Other than the abandonment of the Group's operation of an Internet server co-location centre, further details of which are included in note 5 to the financial statements, there were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover by principal activity and geographical area of operations and contribution to results by principal activity of operations for the year ended 31 December 2001 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 63.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the past four financial years ended 31 December 2001 is set out on page 64 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 25 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the year and details of the distributable reserves of the Company are set out in note 26 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, no charitable contributions has been made by the Group (2000: HK$300,000).

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:
- Mr. Tang Kwok Yuen *(Chairman)*
- Mr. Chan Ngai Sang, Kenny
- Mr. Law Man Ming

Non-executive directors:
- Mr. Yaw Chee Weng *(Vice - Chairman)*
- Mr. Shiro Murai

Independent non-executive directors:

Dr. Chan Yan Cheong	
Mr. Lee Kwan Hung, Eddie	*(appointed on 18 June 2001)*
Dr. Chan Nai Keong	*(resigned on 18 June 2001)*

Subsequent to the balance sheet date, Messrs. Yaw Chee Weng and Shiro Murai resigned as directors on 5 March 2002 and 8 March 2002, respectively. On 26 March 2002, Mr. Lee Kwan Hung, Eddie resigned as a director and Mr. Yuen Kim Hung, Michael was appointed as a director on 24 April 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the Annual Report.

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 from 4 May 2000 and continuing thereafter 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.

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$180,000, HK$90,000 and HK$80,000 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.

As disclosed in the announcement of the Company dated 5 March 2002, the service contract with Mr. Law in relation to the appointment of Mr. Law as the chief executive officer was terminated on 4 March 2002. Mr. Law remains as an executive director of the Company.

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 directors of the Company had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its holding company or its fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors in the share capital of the Company 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:

Name of directors	No. of Ordinary Shares held (Corporate Interest)		No. of Shares entitled under the share option scheme *(note vi)*
Mr. Law	1,956,000,000	*(note i)*	80,000,000
Mr. Tang	—	*(note ii)*	80,000,000
Mr. Yaw Chee Weng ("Mr. Yaw")	535,500,000	*(note iii)*	—
Mr. Chan	—	*(note iv)*	80,000,000
Mr. Shiro Murai ("Mr. Murai")	150,000,000	*(note v)*	—

Report of the Directors

DIRECTORS' INTERESTS IN SHARES *(continued)*

Notes:

(i) Mr. Law 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 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 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 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. Murai is the beneficial owner of 450,000 shares in Siix Corporation, a company listed on the stock exchange in Osaka, Japan, representing approximately 7 per cent, of the issued share capital of Siix Corporation, which 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, Mr. Tang and Mr. Chan 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 31 December 2001, none of the directors or any of their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Other than the Share Options as described below, 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 of the Company or their 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 of fellow subsidiaries, a party to any arrangements to enable the Company's directors to acquire such rights in any other body corporate.

SHARE OPTIONS

As at 31 December 2001, the Company adopted two share option schemes, namely the Pre-IPO Share Option Plan and the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

SHARE OPTIONS *(continued)*

i) Pre-IPO Share Option Plan

On 4 May 2000, options to subscribe for an aggregate of 20,000,000 shares of the Company ("Share(s)") at an exercise price of HK$1.00 per Share were conditionally been granted by the Company. Subsequent to the subdivision of Shares on the basis of every one then existing Share of HK$0.10 each into twenty subdivided Share of HK$0.005 each on 24 November 2000, these options can subscribe for an aggregate of 400,000,000 Shares (representing approximately 8.5% of the issued share capital of the Company as at the date of this report) 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 executive directors of the Company are set out in the section headed "Directors' Interest in Shares".

Since the date of grant of the options, no change in the number of options and exercise period is made except options to subscribe for 20,000,000 Shares had been lapsed during the year ended 31 December 2001 as one of the grantees, who was an employee of the Group, ceased his employment. Save as the aforesaid, no option pursuant to the Pre-IPO Share Option Plan had been exercised, cancelled or lapsed during the year ended 31 December 2001.

During the year ended 31 December 2001, no options has been granted by the Company or any of its subsidiaries.

The following share options were outstanding under the Pre-IPO Share Option Plan during the year:

	Number of share options						Price of Company's shares	
Name or category of participant	At 1 January 2001	Lapsed during the year	At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	At exercise date of options HK$
Directors								
Tang Kwok Yuen	80,000,000	—	80,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK$0.05 per share	N/A	N/A
Chan Ngai Sang, Kenny	80,000,000	—	80,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK$0.05 per share	N/A	N/A
Law Man Ming	80,000,000	—	80,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK$0.05 per share	N/A	N/A
	240,000,000	—	240,000,000					
Other employees								
In aggregate	160,000,000	20,000,000	140,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK$0.05 per share	N/A	N/A
	400,000,000	20,000,000	380,000,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Report of the Directors

SHARE OPTIONS *(continued)*

i) Pre-IPO Share Option Plan *(continued)*

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their costs. Upon the exercise of the share options, the resulting share issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the executive directors and employees, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

ii) 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. The Share Option Scheme became effective for a period of ten years commencing on the listing of the Shares on 18 May 2000. No option had been granted under the Share Option Scheme during the period from 4 May 2000 to 31 December 2001.

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 31 December 2001:

Name	Number of Shares	Percentage of holding
Diamonds and Pearls Limited *(note i)*	1,956,000,000	41.61
Mr. Law *(note i)*	1,956,000,000	41.61
Joyful Way Holdings Limited *(note ii)*	535,500,000	11.39
Mr. Yaw *(note ii)*	535,500,000	11.39

Notes

(i) Diamonds and Pearls Limited is beneficially owned as to 84 per cent. by Mr. Law and as to 16 per cent. by Mr. Tang. 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 (a non-executive director of the Company as at 31 December 2001 and subsequently resigned on 5 March 2002) and as to approximately 26.9 per cent. by Mr. Chan (an executive director of the Company).

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.

Diamonds and Pearls Limited, the substantial shareholder of the Company, which owns as to 41.61% of the issued share capital of the Company, has executed a share mortgage dated 3 January 2002 by pledging all its shares in the Company to secure the repayment of a loan granted to Diamonds and Pearls Limited of HK$40,000,000 together with interest thereon.

Report of the Directors

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 year ended 31 December 2001.

CONNECTED TRANSACTION

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 the chairman of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and the largest customer accounted for 55% and 16%, respectively, of the total sales for the year. Purchases from the Group's five largest suppliers and the largest supplier accounted for 26% and 7%, 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 32 to the financial statements.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year under review and up to the date of this report, 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 31 December 2001, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial Capital") 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 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.

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

On 28 March 2001, 700,000,000 shares were allotted and issued at HK$0.026 per share as payment of consideration for acquisition of Sky Datamann International.

Report of the Directors

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 the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of directors. The audit committee will also be responsible for reviewing 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. Dr. Chan Nai Keong resigned on 18 June 2001 and Mr. Lee Kwan Hung, Eddie was appointed as an independent non-executive director and a member of audit committee on the same date. Mr. Lee Kwan Hung, Eddie resigned on 26 March 2002. Subsequent to Mr. Lee's resignation, Mr. Yuen Kim Hung, Michael was appointed on 24 April 2002 as an independent non-executive director and a member of audit committee. The audit committee has held four meetings during the year ended 31 December 2001 and has performed the functions specified in the GEM Listing Rules.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practice and Procedure as set out in Rule 5.28 to 5.39 of the GEM Listing Rules since listed on GEM.

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

Chairman

Hong Kong
30 April 2002

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 25 to 63 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, except that the scope of our work was limited as explained below.

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 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. However, the evidence available to us was limited as follows:

1. Scope limitation - Provision against payments for a transfer of technology know-how

   Included in the consolidated profit and loss account for the year ended 31 December 2001 is a provision of HK$8.8 million (classified under other operating expenses) made against the Group's payments for a transfer of technology know-how. As described in note 8(b) to the financial statements, a technology transfer agreement dated 1 December 2000 (the "Agreement") was entered into between the Group and a Japanese vendor (the "Vendor") whereby the Vendor agreed to grant a non-exclusive licence (the "Licence") to the Group to use the technology know-how in connection with the manufacture of double injection products for a consideration of HK$8.8 million. On 19 September 2001, the Group made payments aggregating HK$8.8 million to a nominated solicitor firm as instructed by the Vendor. We were unable to obtain sufficient evidence, including the original execution copy of the Agreement and the Licence, to assess or confirm the underlying nature of the transaction, the existence of the Vendor, the Group's ownership of the technology know-how and that the payments to the solicitor firm reflected the underlying transaction. As a result of the above scope limitations, we were not able to perform the procedures we considered necessary to assess the transaction as a whole and, accordingly, as to whether the provision made is appropriate. Any adjustment to the provision would have a consequential impact on the Group's net assets as at 31 December 2001 and its loss for the year then ended.

Report of the Auditors

2. Scope limitation - Provision against a deposit paid for a proposed investment

   Included in the consolidated profit and loss account for the year ended 31 December 2001 is a provision of HK$5 million (classified under other operating expenses) made against a deposit paid for a proposed investment in a water saviour project. As more fully explained in note 8(b) to the financial statements, a memorandum of understanding dated 15 December 2000 and a revised memorandum of understanding dated 28 January 2002 were signed between the Group and an independent investor company (the "Investor Company") pursuant to which both parties intended to establish a joint venture company and jointly develop a water saviour project. On 24 April 2001, a deposit of HK$5 million was paid by the Group to the chief executive officer (the "CEO") of the Investor Company rather than to the Investor Company itself. We were unable to obtain satisfactory explanations concerning the reasons why the payment was made to the CEO instead of the Investor Company and to satisfy ourselves as to whether the payment reflected the underlying nature of the proposed transaction and hence whether the provision made is appropriate. Any adjustment to the provision would have a consequential impact on the Group's net assets as at 31 December 2001 and its loss for the year then ended.

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.

Fundamental uncertainty relating to the going concern basis of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As more fully explained in note 2 to the financial statements, the directors are currently undertaking various measures to relieve the Group from its current liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans and the successful negotiations with the Group's bankers and certain creditors to reschedule and/or restructure its outstanding indebtedness to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of implementing such measures. We consider that appropriate disclosures have been made but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether 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 2001 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Had we not disclaimed our opinion on account of the fundamental uncertainty relating to the going concern basis, we would have qualified our opinion with respect to the limitations of scope relating to the matters as set out in paragraphs 1 and 2 under the basis of opinion section of this report.

Hong Kong
30 April 2002

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	**2001 HK$'000**	2000 HK$'000 (Restated)
TURNOVER			
Continuing operations	7	**102,089**	111,472
Cost of sales		**(75,666)**	(65,577)
Gross profit		**26,423**	45,895
Other revenue	7	**5,447**	4,948
Selling and distribution costs		**(2,851)**	(2,290)
Administrative expenses		**(50,157)**	(28,149)
Other operating expenses	8	**(31,990)**	(4,733)
Loss on abandonment of a discontinued operation, net	5	**(23,297)**	—
PROFIT/(LOSS) FROM OPERATING ACTIVITIES			
Continuing operations		**(41,549)**	15,671
Discontinued operation	5	**(34,876)**	—
	9	**(76,425)**	15,671
Finance costs	10	**(1,567)**	(2,136)
PROFIT/(LOSS) BEFORE TAX		**(77,992)**	13,535
Tax	13	**364**	(3,413)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(77,628)**	10,122
Minority interests		**8**	2
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	14, 26	**(77,620)**	10,124
EARNINGS/(LOSS) PER SHARE (cents)	15		
Basic		**(1.71)**	0.28
Diluted		**N/A**	N/A

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

	Note	**2001** **HK$'000**	2000 HK$'000
Exchange differences on translation of the financial statements of foreign subsidiaries and loss not recognised in the consolidated profit and loss account	26	**(90)**	(45)
Net profit/(loss) from ordinary activities attributable to shareholders		**(77,620)**	10,124
Total recognised gains and losses		**(77,710)**	10,079

Consolidated Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Fixed assets	16	**77,582**	78,541
Deposits paid for purchases of fixed assets		**—**	9,204
		77,582	87,745
CURRENT ASSETS			
Inventories	18	**17,538**	22,870
Trade receivables	19	**11,684**	35,748
Prepayments, deposits and other receivables		**7,813**	6,440
Tax recoverable		**1,401**	—
Pledged time deposits	29	**—**	6,300
Cash and bank balances		**5,734**	35,702
		44,170	107,060
CURRENT LIABILITIES			
Interest-bearing bank borrowings	20	**4,574**	13,462
Trade and bills payables	21	**21,833**	25,300
Deposits received		**13,848**	22,353
Accrued liabilities and other payables		**23,448**	17,849
Finance lease payables	22	**5,563**	4,749
Tax payable		**2,124**	7,148
		71,390	90,861
NET CURRENT ASSETS/(LIABILITIES)		**(27,220)**	16,199
TOTAL ASSETS LESS CURRENT LIABILITIES		**50,362**	103,944
NON-CURRENT LIABILITIES			
Finance lease payables	22	**(4,375)**	(3,881)
Other payables	23	**(1,481)**	—
Deferred tax	24	**(900)**	(700)
		(6,756)	(4,581)
MINORITY INTERESTS		**(23)**	(31)
		43,583	99,332
CAPITAL AND RESERVES			
Issued capital	25	**23,500**	20,000
Reserves	26	**20,083**	79,332
		43,583	99,332

Tang Kwok Yuen
Director

Chan Ngai Sang, Kenny
Director

Consolidated Cash Flow Statement

Yeah ended 31 December 2001

	Notes	**2001**	2000
		HK$'000	*HK$'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	27(a)	**(581)**	40,881
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**391**	1,229
Interest paid		**(443)**	(521)
Interest element on finance lease rental payments		**(1,124)**	(1,615)
Net cash outflow from returns on investments and servicing of finance		**(1,176)**	(907)
TAX			
Hong Kong profits tax paid		**(5,861)**	(767)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(1,751)**	(18,725)
Proceeds from disposal of fixed assets		**53**	1,691
Acquisition of subsidiaries	27(c)	**(5,791)**	(2,390)
Purchase of other investment	8(a)	**(3,800)**	—
Payments for a transfer of technology know-how	8(b)	**(8,800)**	—
Deposit paid for a proposed investment	8(b)	**(5,000)**	—
Deposits paid for purchases of fixed assets		**—**	(9,204)
Net cash outflow from investing activities		**(25,089)**	(28,628)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		**(32,707)**	10,579
FINANCING ACTIVITIES			
Proceeds from issue of share capital	27(b)	**—**	50,000
Share issue expenses	27(b)	**—**	(14,328)
Drawdown of bank loans	27(b)	**4,673**	—
Repayment of bank loans	27(b)	**(2,804)**	(211)
Repayment of shareholders' loan	27(b)	**—**	(3,140)
Capital element of finance lease rental payments	27(b)	**(5,443)**	(8,501)
Decrease/(increase) in pledged time deposits		**6,300**	(6,300)
Net cash inflow from financing activities		**2,726**	17,520
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(29,981)**	28,099
Cash and cash equivalents at beginning of year		**35,702**	7,696
Effect of foreign exchange rate changes, net		**13**	(93)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,734**	35,702
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**5,734**	35,702

Balance Sheet

31 December 2001

	Notes	**2001** **HK$'000**	2000 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**42,708**	79,901
CURRENT ASSETS			
Other receivables		**—**	14
Cash and bank balances		**148**	14,697
		148	14,711
		42,856	94,612
CAPITAL AND RESERVES			
Issued capital	25	**23,500**	20,000
Reserves	26	**19,356**	74,612
		42,856	94,612

Tang Kwok Yuen
Director

Chan Ngai Sang, Kenny
Director

Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the manufacture and sale of high precision molds and plastic products, and the operation of an Internet server co-location centre which was discontinued during the year (further details of which are set out in note 5 to the financial statements).

2. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF THE GOING CONCERN BASIS

During the year ended 31 December 2001, the Group incurred a consolidated net loss from ordinary activities attributable to shareholders of HK$77.6 million and reported a decrease in cash and cash equivalents of HK$30.0 million. As at 31 December 2001, the Group had consolidated net current liabilities of HK$27.2 million and total bank borrowings and finance lease payables aggregating HK$14.5 million (of which approximately HK$4.8 million was overdue subsequent to the balance sheet date).

During the year, certain of the Group's bankers have terminated or reduced facilities granted to the Group. As at the date on which these financial statements were approved, the Group had no unutilised banking facilities available to support its working capital requirements.

In view of the liquidity problems faced by the Group, the directors have adopted the following measures with a view to improving the Group's overall financial position, immediate liquidity and cash flows and otherwise sustaining the Group as a going concern:

(a) The directors are currently at an advanced stage of negotiations with a potential investor to raise additional working capital funds. The directors will also consider obtaining new banking facilities upon completion of the aforesaid fund-raising plan;

(b) The directors have been in negotiations with certain of the Group's bankers and creditors to reschedule and/or restructure the repayment terms of its outstanding indebtedness and to seek their ongoing support; and

(c) The directors have been taking actions to continue tightening cost controls over various general and administrative expenses.

In the opinion of the directors, in light of the measures taken to date, together with the expected results from other measures in progress, the Group should have sufficient working capital for its current financial requirements. The directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2001.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 22 and 28(b) to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves.

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3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

The Group has taken advantage of the transitional provision in SSAP 30 in that the goodwill that arose from acquisitions prior to 1 January 2001, which had been previously eliminated against consolidated reserves, has not been retrospectively restated under the new accounting policy. Therefore, goodwill arising on acquisition prior to 1 January 2001 is held in consolidated reserves and will be charged to the consolidated profit and loss account at the time of disposal of the subsidiaries, or at such time as the goodwill is determined to be impaired.

SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This also applies to goodwill eliminated against consolidated reserves in accordance with the provisions of Interpretation 13.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to consolidated reserves. As a result, the goodwill arising from the acquisition of subsidiaries in 2000 was determined to have been impaired as at 31 December 2001. The goodwill impaired at an amount of HK$3,761,000 was written back from consolidated reserves and charged to the consolidated profit and loss account for the year ended 31 December 2001.

4. 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 generally accepted 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 include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

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.

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

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. 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 fixed assets have been put into operation, such as repairs and maintenance, 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%
Co-location centre facilities	20%

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 any estimated costs expected to be incurred to completion, 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

4. 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) from the 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 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 to 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 using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

4. 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 of its employees. The Scheme has operated since 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 salaries 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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.

Other investments

Other investments are stated at fair value at the balance sheet date. The Group's other investment was acquired during the year and a full provision has been made for the year as detailed in note 8(a) to the financial statements.

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5. DISCONTINUED OPERATION

In March 2001, the Group completed the acquisition of the entire equity interest in and shareholder's loans to Sky Datamann International Limited ("Sky Datamann International") from Sky Citi-link ATNT (Holdings) Limited, further details were contained in the Company's circular dated 26 February 2001. Sky Datamann International holds a subsidiary which was engaged in the provision of an Internet server co-location centre, which was solely carried out in Hong Kong. In December 2001, the Group abandoned its business of such operation.

The amounts included in the consolidated profit and loss account in respect of the discontinued operation are summarised as follows:

	2001	2000
	HK$'000	*HK$'000*
Other revenue	**2,241**	—
Selling and distribution costs	**(51)**	—
Administrative expenses	**(13,028)**	—
Other operating expenses	**(741)**	—
Loss on abandonment of a discontinued operation, net*	**(23,297)**	—
Loss on discontinued operation	**(34,876)**	—

* This includes impairment in value of fixed assets of HK$32,261,000 (note 16), the write-off of various deposits of HK$1,198,000 and negative goodwill recognised of HK$10,162,000 (see note 9 for further details).

6. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the mold products segment engages in the manufacture and sale of high precision molds;

(b) the plastic products segment engages in the manufacture and sale of plastic products; and

(c) the data centre segment engages in the operation of an Internet server co-location centre.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

During the current and prior years, there were no intersegement transactions.

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6. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue and profit/(loss) information for the Group's business segments.

Group

	Mold products		Plastic products		Data centre		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**76,849**	79,227	**25,240**	32,245	**—**	—	**102,089**	111,472
Other revenue	**2,288**	3,102	**11**	234	**2,241**	—	**4,540**	3,336
Total	**79,137**	82,329	**25,251**	32,479	**2,241**	—	**106,629**	114,808
Segment results	**(23,439)**	12,508	**(10,003)**	2,179	**(34,876)**	—	**(68,318)**	14,687
Unallocated other revenue							**907**	1,612
Unallocated expenses							**(9,014)**	(628)
Profit/(loss) from operating activities							**(76,425)**	15,671
Finance costs							**(1,567)**	(2,136)
Profit/(loss) before tax							**(77,992)**	13,535
Tax							**364**	(3,413)
Profit/(loss) before minority interests							**(77,628)**	10,122
Minority interests							**8**	2
Net profit/(loss) from ordinary activities attributable to shareholders							**(77,620)**	10,124

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

The following tables present certain asset, liability and expenditure information for the Group's business segments.

Group

	Mold products		Plastic products		Data centre		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**77,426**	120,316	**38,164**	53,939	**125**	—	**115,715**	174,255
Unallocated assets							**6,037**	20,550
Total assets							**121,752**	194,805
Segment liabilities	**33,186**	51,293	**9,329**	5,856	**11,146**	—	**53,661**	57,149
Unallocated liabilities							**24,485**	38,293
Total liabilities							**78,146**	95,442
Other segment information:								
Depreciation	**7,578**	4,776	**3,263**	2,724	**5,924**	—		
Other non-cash expenses:								
- Impairment of fixed assets *(note)*	**—**	—	**—**	—	**32,261**	—		
- Provision against payments for a transfer of technology know-how	**8,800**	—	**—**	—	**—**	—		
- Provision against a deposit paid for a proposed investment	**—**	—	**5,000**	—	**—**	—		
- Provision for doubtful debts	**2,956**	1,246	**2,966**	154	**273**	—		
Capital expenditure	**4,764**	18,124	**4,855**	924	**2**	—		

Note: The impairment losses recognised in the data centre segment mainly related to co-location centre facilities, building and factory improvements and computer and equipment. Details of impairment losses of fixed assets are set out in note 16 to the financial statements.

6. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		European Union *		United States and Canada		Japan		Taiwan		Others		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:																
Sales to external customers	**21,450**	27,259	**15,009**	5,521	**3,621**	14,395	**36,383**	30,589	**24,177**	9,028	**48**	22,791	**1,401**	1,889	**102,089**	111,472
Other revenue	**2,307**	44	**652**	980	**—**	—	**1,581**	2,312	**—**	—	**—**	—	**—**	—	**4,540**	3,336
	23,757	27,303	**15,661**	6,501	**3,621**	14,395	**37,964**	32,901	**24,177**	9,028	**48**	22,791	**1,401**	1,889	**106,629**	114,808

	Hong Kong		Elsewhere in the PRC		United States and Canada		Others		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Segment assets	**15,389**	47,950	**95,569**	110,744	**7,918**	30,937	**1,475**	5,174	**120,351**	194,805
Capital expenditure	**867**	3,540	**7,304**	17,305	**2,464**	2,333	**—**	5	**10,635**	23,183

* European Union principally relates to the United Kingdom and France.

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7. TURNOVER, REVENUE AND GAINS

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Turnover - Sale of goods	**102,089**	111,472
Interest income	**391**	1,229
Exchange gains, net	**1,064**	—
Negative goodwill recognised as income during the year	**1,793**	—
Sundry income	**2,199**	3,719
Other revenue and gains	**5,447**	4,948
Total	**107,536**	116,420

8. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Impairment of goodwill - note 26	**3,761**	—
Provision for doubtful debts	**6,245**	1,400
Provision against other investment - note (a)	**3,800**	—
Provision against payments for a transfer of technology know-how - note (b)	**8,800**	—
Provision against a deposit paid for a proposed investment - note (b)	**5,000**	—

Notes:

(a) On 8 January 2001, the Group entered into an agreement with Dragon Media Investment Limited ("DMI") and a shareholder of DMI (the "DMI Shareholder") whereby the Group agreed to (i) acquire from the DMI Shareholder 374 shares in DMI for a consideration of HK$3.3 million; and (ii) subscribe for 57 shares in DMI at a subscription price of HK$0.5 million (collectively, the "Acquisition and Subscription"). Following the completion of the Acquisition and Subscription, the Group held 26% of the enlarged issued share capital of DMI. The directors confirm that both DMI and the DMI Shareholder are independent third parties to the Group. DMI was engaged in the publishing of education software and materials, such as books and web-based courseware in Beijing, the PRC, through its subsidiaries and associate. According to the business plan of DMI, DMI was proposed to be listed on the Growth Enterprise Market (the "GEM") in Hong Kong in the third quarter of 2001.

8. OTHER OPERATING EXPENSES *(continued)*

Despite the Group's holding of a 26% equity interest in DMI, the purpose of the investment was to make a short term capital gain from the expected listing of DMI and, accordingly, the investment was expected to be held on a temporary basis. The Group is not in a position to exercise significant influence over the financial and operating policy decisions of DMI. Accordingly, the directors consider it appropriate to account for the investment therein as a short term other investment.

Consequent to the unfavourable economic conditions and the downturn in the information technology industry prevailing in the second half of 2001, the intended projects underlying in the business plan of DMI have not been successfully consummated and the listing plan of DMI has also been suspended. The directors do not expect that the Group's investment in DMI will be recoverable and, accordingly, a full provision has been made against the investment in the Group's profit and loss account in the current year.

(b) On 1 December 2000, the Group entered into a technology transfer agreement (the "Agreement") with a Japanese vendor (the "Vendor") whereby the Vendor agreed to grant a non-exclusive licence to the Group to use the technology know-how in connection with the manufacture of double injection products for a consideration of HK$8.8 million. On 19 September 2001, the Group made payments aggregating HK$8.8 million to a nominated solicitor firm as instructed by the Vendor.

Pursuant to a memorandum of understanding ("MOU") dated 15 December 2000 and a revised MOU (the "Revised MOU") dated 28 January 2002 signed between the Group and an independent investor company (the "Investor Company"), the Group and the Investor Company intended to establish a joint venture company and jointly develop a water saviour project (the "JV Company"). Under the terms of the MOU and the Revised MOU, the Group was required to pay HK$5 million as a deposit, and to issue a certain number of shares of the Company (this requirement was subsequently repudiated as specified in the Revised MOU), in return for a certain stake in the JV Company, whereas the Investor Company was to inject the water saviour patent (pending registration) into the JV Company. On 24 April 2001, the Group paid the HK$5 million deposit as required under the MOU.

Having regard to the financial difficulty currently confronted by the Group, the directors consider that the Group may not be able to fulfil the future funding requirements for the above projects and, accordingly, full provisions aggregating HK$13.8 million have been made against the payments in the Group's profit and loss account in the current year.

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9. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	2001	2000
	HK$'000	*HK$'000*
Depreciation	**17,763**	7,919
Auditors' remuneration	**720**	720
Staff costs (exclusive of directors' remuneration disclosed in note 11):		
Wages and salaries	**27,644**	20,430
Staff retirement benefits scheme contributions *	**509**	137
Minimum lease payments under operating leases:		
Land and buildings	**3,146**	1,061
Circuits	**1,508**	—
Payment for the use of an industrial plant **	**3,505**	3,505
Cost of inventories sold	**71,278**	61,763
Research and development costs	**945**	650
Loss on disposal of fixed assets	**—**	75
Impairment of fixed assets ***	**32,961**	—
Exchange losses, net	**—**	103
and after crediting:		
Negative goodwill recognised as income during the year ****	**11,955**	—
Gain on disposal of fixed assets	**12**	—
Exchange gains, net	**1,064**	—
Interest income	**391**	1,229

* At 31 December 2001, there were no forfeited contributions available to the Group to reduce contributions of the staff retirement benefits scheme in future years (2000: Nil).

** In previous years, the payment for the use of an industrial plant was included in "Other operating expenses". During the current year, the Group considered it more appropriate to include the amount in the Group's cost of sales to better reflect the underlying nature of the balance. The comparative amounts of cost of sales and other operating expenses have been restated to conform with the current year's presentation.

*** Impairment in value of fixed assets charged to the profit and loss account for the year are included in "Loss on abandonment of a discontinued operation" and "Other operating expenses" of HK$32,261,000 (note 5) and HK$700,000, respectively, on the face of the profit and loss account.

**** The movements in negative goodwill recognised in the profit and loss account for the year are included in "Other revenue" and "Loss on abandonment of a discontinued operation" of HK$1,793,000 and HK$10,162,000 (note 5), respectively, on the face of the profit and loss account.

10. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**48**	10
Finance leases	**1,124**	1,615
Import bills	**395**	511
	1,567	2,136

11. DIRECTORS' REMUNERATION

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Fees	**310**	190
Other emoluments:		
Basic salaries and allowances	**6,142**	3,680
Staff retirement benefits scheme contributions	**36**	3
	6,488	3,873

The remuneration paid by the Group to the three executive directors of the Company for the year ended 31 December 2001 analysed on an individual basis was HK$2,372,000 (2000: HK$1,494,334), HK$1,908,667 (2000: HK$1,254,333) and HK$1,897,000 (2000: HK$934,333), respectively.

The remuneration paid by the Group to the three (2000: two) independent non-executive directors of the Company for the year ended 31 December 2001 analysed on an individual basis was HK$120,000 (2000: HK$110,000), HK$50,000 (2000: HK$80,000) and HK$140,000 (2000: Nil), respectively.

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 waived or agreed to waive any remuneration during the year.

In the prior year, share options to subscribe for 240,000,000 shares of the Company were granted to the directors in respect of their services rendered to the Group, further details of which are set out under the heading "Share Options" in the Report of the Directors on pages 18 to 20. No value in respect of the share options granted in the prior year has been charged to the profit and loss account or included in the directors' remuneration disclosed above (2000: Nil).

There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2000: three) directors, details of whose emoluments are set out in note 11 above. Details of the remuneration of the remaining two (2000: two) non-directors, highest paid employees during the year are set out as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Basic salaries and allowances	**1,106**	1,015
Staff retirement benefits scheme contributions	**21**	2
	1,127	1,017

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

	Number of employees	
	2001	2000
Nil - HK$1,000,000	**2**	2

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

In the prior year, share options to subscribe for 40,000,000 shares of the Company were granted to the two non-directors, highest paid employees in respect of their services rendered to the Group, further details of which are set out under the heading " Share Options" in the Report of the Directors on pages 18 to 20. No value in respect of the share options granted in the prior year has been charged to the profit and loss account or included in the remuneration of the two non-directors, highest paid employees disclosed above (2000: Nil).

13. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year. Hong Kong profits tax in the prior year had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that 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.

	Group	
	2001	2000
	HK$'000	*HK$'000*
Provision for tax in respect of profits for the year:		
Hong Kong	**—**	2,640
Elsewhere	**8**	523
Overprovision in prior years	**(572)**	—
Deferred tax - note 24	**200**	250
Tax charge/(credit) for the year	**(364)**	3,413

14. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company was HK$69,956,000 (2000: net profit of HK$861,000).

15. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$77,620,000 (2000: net profit of HK$10,124,000) and the weighted average of 4,535,068,493 (2000: 3,622,950,820) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2001 has not been presented as the effect of any dilution is anti-dilutive. Diluted earnings per share for the year ended 31 December 2000 had not been presented as no diluting events existed during that year.

16. 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$'000	Co-location centre facilities HK$'000	Total HK$'000
Cost:							
At beginning of year	25,464	65,116	2,997	4,427	2,933	—	100,937
Arising from acquisition of subsidiaries	1,108	—	12,161	294	—	25,711	39,274
Additions	1,140	8,292	709	337	157	—	10,635
Disposals	—	—	(50)	—	(123)	—	(173)
Exchange realignment	(13)	(49)	(43)	(15)	(1)	—	(121)
At 31 December 2001	27,699	73,359	15,774	5,043	2,966	25,711	150,552
Accumulated depreciation and impairment:							
At beginning of year	3,825	15,722	608	2,068	173	—	22,396
Depreciation provided during the year	1,618	7,860	2,663	950	610	4,062	17,763
Impairment during the year recognised in the profit and loss account	1,729	—	9,313	270	—	21,649	32,961
Disposals	—	—	(23)	—	(109)	—	(132)
Exchange realignment	(5)	(5)	(7)	(1)	—	—	(18)
At 31 December 2001	7,167	23,577	12,554	3,287	674	25,711	72,970
Net book value:							
At 31 December 2001	20,532	49,782	3,220	1,756	2,292	—	77,582
At 31 December 2000	21,639	49,394	2,389	2,359	2,760	—	78,541

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery, motor vehicles and computer and equipment as at 31 December 2001 amounted to HK$14,767,247 (2000: HK$13,647,487), HK$1,703,558 (2000: HK$2,166,936) and HK$490,364 (2000: HK$636,896), respectively.

Subsequent to the balance sheet date, certain credit facility/lease agreements entered into by the Group were breached and/or terminated due to the Group's non-payment of the overdue amounts under these agreements aggregating HK$5.6 million as at 30 April 2002. Writs or demand letters have been issued by the related creditors and a banker (collectively, the "Creditors") against the Group either to demand immediate repayment of the full outstanding amounts or to request the return of certain leased fixed assets of the Group. In addition, certain of the Creditors imposed restrictions on the Group for the transfer or disposal of certain of its fixed assets. The Group is currently under negotiations with the Creditors to reschedule and/or restructure the repayment arrangements.

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31 December 2001

16. FIXED ASSETS *(continued)*

The impairment losses for co-location centre facilities (HK$21,649,000), building and factory improvements (HK$1,029,000), computer and equipment (HK$9,313,000), and furniture and fixtures (HK$270,000) represented the write-down of certain of these assets to their recoverable amounts due to the closure of the data centre and have been included in the loss on abandonment of a discontinued operation as detailed in note 5 to the financial statements.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**58,078**	58,078
Due from subsidiaries	**54,630**	21,823
	112,708	79,901
Provision for impairment	**(70,000)**	—
	42,708	79,901

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 name	**Place of incorporation/ establishment and operations**	**Nominal value of issued ordinary share/ registered capital**	**Percentage of equity interest attributable to the Company 2001**	**2000**	**Principal activities**
Smartech International Group Limited	British Virgin Islands/ Hong Kong	US$1,000,000	**100**	100	Investment holding
Smartech Manufacturing Limited	Hong Kong	HK$5,000,000	**100**	100	Manufacture and sale of molds
Dongguan Smartech Tooling & Plastics Limited ("Dongguan Smartech")	PRC	US$7,200,000 Note	**100**	100	Manufacture and sale of molds and plastic products
Smartech Plastic Moulding Limited	Hong Kong	HK$100	**100**	100	Manufacture of plastic products
Smartech (Overseas) Limited	Hong Kong	HK$100	**100**	100	Investment holding
Smartech Manufacturing Limited	Canada	CAN$266,700	**100**	100	Sale of molds

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
Smartech Limited	Canada	CAN$1,000	**100**	100	Sale of molds and provision of customer services
Smartech Technology Limited	British Virgin Islands/ Hong Kong	US$100	**80**	80	Product design and development
Smartech Services Limited	Hong Kong	HK$2	**100**	100	Provision of management services
Smartech Solutions Limited	Hong Kong	HK$2	**100**	100	Software development
SSSHot.com Limited	Hong Kong	HK$2	**100**	100	Provision of information services on the Internet
Sky Datamann (Hong Kong) Limited	Hong Kong	HK$2	**100**	100	Operation of an Internet server co-location centre

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 is a Sino-foreign co-operative joint venture established in the PRC with a tenure of 20 years expiring on 21 March 2016. The investment and registered capital of Dongguan Smartech are US$17,865,000 and US$7,200,000, respectively, and the registered capital was solely contributed and 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. 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.

18. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**3,201**	1,996
Work in progress	**10,847**	12,840
Finished goods	**892**	1,426
Consumable tools	**2,598**	6,608
	17,538	22,870

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. For the mold products segment, the credit period is generally granted to customers for a period of one month. For the plastic products segment, the credit period is generally for a period of one month, extending up to three months for major customers.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within 1 month	**5,346**	13,901
1 to 2 months	**2,236**	4,284
2 to 3 months	**647**	9,487
Over 3 months	**3,455**	8,076
	11,684	35,748

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20. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank loans, unsecured	**1,869**	—
Trust receipt loans:		
Secured	**—**	13,462
Unsecured	**2,705**	—
	2,705	13,462
Amounts due within one year classified as current liabilities	**4,574**	13,462

At the balance sheet date, all of the above bank loans and trust receipt loans were repayable on demand or not exceeding one year. Details of the security for the secured borrowings are set out in note 29 to the financial statements.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within 1 month	**2,505**	7,157
1 to 2 months	**3,688**	7,685
2 to 3 months	**3,094**	3,488
Over 3 months	**12,546**	6,970
	21,833	25,300

Notes to Financial Statements

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22. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, motor vehicles and computer and equipment. These leases are classified as finance leases and have remaining lease terms ranging from less than one year to three years.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**6,399**	5,614	**5,563**	4,749
In the second year	**3,399**	3,464	**2,986**	2,951
In the third to fifth years, inclusive	**1,603**	1,088	**1,389**	930
Total minimum finance lease payments	**11,401**	10,166	**9,938**	8,630
Future finance charges	**(1,463)**	(1,536)		
Total net finance lease payables	**9,938**	8,630		
Portion classified as current liabilities	**(5,563)**	(4,749)		
Non-current portion	**4,375**	3,881		

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts of new disclosures have been included where appropriate.

23. OTHER PAYABLES

The amount represents payables to an independent third party for purchases of plant and machinery. The balance is unsecured, interest-free and not due for repayment within the next twelve months.

Notes to Financial Statements

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24. DEFERRED TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Balance at beginning of year	**700**	450
Charge for the year - note 13	**200**	250
Balance at end of year	**900**	700

The Group's provision for deferred tax represents the time 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.

25. SHARE CAPITAL

Shares

	Company	
	2001	2000
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.005 each	50,000	50,000
Issued and fully paid:		
4,700,000,000 (2000: 4,000,000,000) ordinary shares of HK$0.005 each	23,500	20,000

Movements in the issued share capital of the Company during the year were as follows:

	Note	**Number of shares issued**	**Amount**
			HK$'000
At beginning of year		4,000,000,000	20,000
Issue of new shares	(a)	700,000,000	3,500
		4,700,000,000	23,500

Note:

(a) On 28 March 2001, a total of 700,000,000 ordinary shares of HK$0.005 each were allotted and issued at a fair value of HK$0.026 each by way of consideration for the Group's acquisition of 100% equity interest in and shareholder's loans to Sky Datamann International (see note 27(c)).

25. SHARE CAPITAL *(continued)*

Share options

The Company operates a Pre-IPO Share Option Plan (the "Pre-IPO Plan") and a Share Option Scheme (the "Scheme"), further details of which are set out under "Share options" in the Report of the Directors on pages 18 to 20.

At the beginning of the year, there were 400,000,000 options outstanding under the Pre-IPO Plan, which entitled the holders to subscribe for shares in the Company, at an exercise price of HK$0.05, subject to adjustments, with a vesting period from 4 May 2002 to 3 May 2005. During the year, 20,000,000 options outstanding under the Pre-IPO Plan lapsed upon the cessation of employment of an option holder.

No shares options have been granted and exercised under the Scheme as at 31 December 2001 and up to the date of approval of these financial statements.

26. RESERVES

Group

	Share premium account	Exchange fluctuation reserve	Goodwill reserve	Contributed surplus (note)	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2000	—	147	—	31,929	25,265	57,341
Translation differences arising on consolidation of overseas subsidiaries	—	(45)	—	—	—	(45)
Issue of shares	45,000	—	—	—	—	45,000
Capitalisation issue of shares	(14,999)	—	—	—	—	(14,999)
Share issue expenses	(14,328)	—	—	—	—	(14,328)
Goodwill eliminated on consolidation	—	—	(3,761)	—	—	(3,761)
Net profit for the year	—	—	—	—	10,124	10,124
Balance at 31 December 2000 and 1 January 2001	15,673	102	(3,761)	31,929	35,389	79,332
Translation differences arising on consolidation of overseas subsidiaries	—	(90)	—	—	—	(90)
Issue of shares	14,700	—	—	—	—	14,700
Impairment of goodwill - note 8	—	—	3,761	—	—	3,761
Net loss for the year	—	—	—	—	(77,620)	(77,620)
Balance at 31 December 2001	30,373	12	—	31,929	(42,231)	20,083

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31 December 2001

26. RESERVES *(continued)*

Company

	Share premium account HK$'000	Contributed surplus (note) HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Arising on acquisition of a subsidiary	—	58,078	—	58,078
Issue of shares	45,000	—	—	45,000
Capitalisation issue of shares	(14,999)	—	—	(14,999)
Share issue expenses	(14,328)	—	—	(14,328)
Net profit for the year	—	—	861	861
Balance at 31 December 2000 and 1 January 2001	15,673	58,078	861	74,612
Issue of shares	14,700	—	—	14,700
Net loss for the year	—	—	(69,956)	(69,956)
Balance at 31 December 2001	30,373	58,078	(69,095)	19,356

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 prior to the listing of the Company's shares 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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	HK$'000	*HK$'000*
Profit/(loss) from operating activities	**(76,425)**	15,671
Interest income	**(391)**	(1,229)
Loss/(gain) on disposal of fixed assets	**(12)**	75
Provision for doubtful debts	**6,245**	1,400
Provision against other investment	**3,800**	—
Provision against payments for a transfer of technology know-how	**8,800**	—
Provision against a deposit paid for a proposed investment	**5,000**	—
Loss on abandonment of a discontinued operation, net	**23,297**	—
Impairment of fixed assets	**700**	—
Impairment of goodwill	**3,761**	—
Negative goodwill recognised as income during the year	**(1,793)**	—
Depreciation	**17,763**	7,919
Decrease/(increase) in inventories	**5,332**	(2,986)
Decrease/(increase) in trade receivables	**17,839**	(19,759)
Decrease/(increase) in prepayments, deposits and other receivables	**3,408**	(2,892)
Increase/(decrease) in trade and bills payables	**(4,965)**	7,317
Increase in accrued liabilities and other payables	**6,322**	10,444
Increase/(decrease) in deposits received	**(8,505)**	11,459
Increase/(decrease) in trust receipt loans	**(10,757)**	13,462
Net cash inflow/(outflow) from operating activities	**(581)**	40,881

Notes to Financial Statements

31 December 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued capital and share premium account HK$'000	Interest-bearing bank loans HK$'000	Shareholder's loan and other payables HK$'000	Finance lease payables HK$'000	Minority interests HK$'000
Balance at 1 January 2000	1	211	7,291	8,522	33
Net cash outflow from financing activities	—	(211)	(3,140)	(8,501)	—
Inception of finance lease 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 and 1 January 2001	35,673	—	—	8,630	31
Net cash inflow/(outflow) from financing activities	—	1,869	—	(5,443)	—
Inception of finance lease contracts	—	—	—	3,251	—
Reclassification from accrued liabilities and other payables	—	—	1,481	3,500	—
Arising from acquisition of subsidiaries	18,200	—	—	—	—
Share of loss	—	—	—	—	(8)
Balance at 31 December 2001	53,873	1,869	1,481	9,938	23

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries

	2001 **HK$'000**	2000 HK$'000
Net assets/(liabilities) acquired:		
Fixed assets	**39,274**	213
Trade receivables	**20**	30
Prepayments, deposits and other receivables	**5,979**	170
Cash and bank balances	**713**	10
Trade payables	**(1,498)**	—
Accrued liabilities and other payables	**(7,829)**	(1,784)
	36,659	(1,361)
Goodwill/(negative goodwill) on acquisition	**(11,955)**	3,761
Consideration	**24,704**	2,400
Satisfied by:		
Cash paid	**6,504**	2,400
Issue of shares	**18,200**	—
	24,704	2,400

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

	2001 **HK$'000**	2000 HK$'000
Cash paid	**6,504**	2,400
Cash and bank balances acquired	**(713)**	(10)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**5,791**	2,390

Notes to Financial Statements

31 December 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries *(continued)*

On 28 March 2001, the Group acquired a 100% interest in and shareholder's loans to Sky Datamann International from Sky Citi-link ATNT (Holdings) Limited. The purchase consideration for the acquisition was satisfied by the issue of 700 million shares of the Company (notes 5 and 25(a)). The consideration of approximately HK$6.5 million paid by cash represented incidental acquisition costs.

Sky Datamann International did not generate any turnover during the year but contributed HK$34,876,000 to the consolidated loss from operating activities for the year ended 31 December 2001.

For the year ended 31 December 2001, Sky Datamann International contributed HK$605,000 to the Group's net operating cash outflows, received HK$20,000 in respect of the cash flows for net returns on investments and servicing of finance, and had no significant impact in respect of the Group's cash flows for financing and investing activities or the payment of 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$6,751,000 (2000: HK$8,609,000).

(ii) A total of 700,000,000 shares of the Company at fair value of HK$0.026 per share were issued as consideration for the acquisition of 100% interest in and shareholder's loans to Sky Datamann International (note 27(c)).

(iii) There were no attributable cash flows in respect of other operating expenses as set out in note 8 to the financial statements.

28. COMMITMENTS

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

(a) Capital commitment

	2001 **HK$'000**	2000 *HK$'000*
Capital commitment in respect of fixed assets contracted for	**—**	5,099

(b) Operating lease arrangements

The Group leases all of its office premises and an industrial plant in the PRC under operating lease arrangements. Lease for the office premises are negotiated for terms ranging from one to three years. Lease for the industrial plant in the PRC are negotiated for a term of 16.25 years.

In summary, at 31 December 2001, the Group has total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2001 **HK$'000**	2000 *HK$'000* *(Restated)*
Within one year	**6,340**	4,317
In the second to fifth years, inclusive	**9,169**	10,486
After five years	**18,192**	19,997
	33,701	34,800

In addition to the above commitments, the Group has committed to pay a sum of approximately HK$11.4 million (2000: 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 is to be 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$5.8 million (2000: HK$6.5 million) to Changan as a land management fee. The payment is to be made by monthly installments of approximately HK$28,000 each for a period of five years commencing on 1 January 2000, subject to an increment of 15% for every five years. The commitments will end on 21 March 2016.

28. COMMITMENTS *(continued)*

(c) The Group's other commitments authorised, but not contracted for, amounted to HK$565,000 (2000: HK$1,510,000).

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

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

29. PLEDGE OF ASSETS

As at the prior year end, time deposits of HK$6.3 million of the Group were pledged in favour of a bank for banking facilities granted to the Group. In addition, certain Group's banking facilities of HK$10 million was secured by guarantees with negative pledge on the present and future book debts of certain subsidiaries. No such pledge of assets or guarantees were given by the Group as at 31 December 2001.

30. CONTINGENT LIABILITIES

At the balance sheet date, the Company had the following contingent liabilities not provided for in the financial statements:

	2001 *HK$'000*	2000 *HK$'000*
Corporate guarantees on liabilities of subsidiaries in respect of:		
Bank borrowings granted to and utilised	**5,682**	17,992
Obligations under finance leases	**5,572**	6,515
	11,254	24,507

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

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31. RELATED PARTY TRANSACTION

During the year, the Group paid rental expenses of HK$612,000 (2000: HK$612,000) to Mass Source Investment Limited, of which Mr. Tang Kwok Yuen, a director and beneficial shareholder of the Company, is a director and beneficial shareholder. The rental expense was related to the office premises occupied by the Group. The rental was charged at monthly amount of HK$51,000 (2000: HK$51,000) which was determined with reference to the prevailing open market rentals.

32. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the financial statements, on 11 February 2002, the Company announced that it has difficulty to reach Mr. Law Man Ming, the former chairman and executive director of the Company. Further details were included in that annomcement.

33. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 April 2002.

Financial Summary

RESULTS

	Year ended 31 December			
	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**102,089**	111,472	122,988	84,616
PROFIT/(LOSS) BEFORE TAX	**(77,992)**	13,535	24,443	12,199
Tax	**364**	(3,413)	(4,454)	(1,524)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(77,628)**	10,122	19,989	10,675
Minority interests	**8**	2	(33)	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(77,620)**	10,124	19,956	10,675

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December		
	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*
TOTAL ASSETS	**121,752**	194,805	113,185
TOTAL LIABILITIES	**(78,146)**	(95,442)	(55,810)
MINORITY INTERESTS	**(23)**	(31)	(33)
	43,583	99,332	57,342

Note: The summary financial information for each of the three years ended 31 December 2001 has been taken from the financial statements of the Group for the years ended 31 December 2001 and 2000. The pro forma 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 as further explained in the prospectus.