ANNUAL REPORT 2002

新宇國際實業(集團)有限公司

(於開曼群島註冊成立之有限公司)

New Universe

INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

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

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

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

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

This annual report, for which the directors of NEW UNIVERSE INTERNATIONAL GROUP LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to NEW UNIVERSE INTERNATIONAL GROUP LIMITED. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual 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

Hua Zhixiang *(Chairman) (i)*
Tang Kwok Yuen *(Vice-Chairman)*
Xi Yu *(ii)*
Chan Loong Sang, Tommy *(iii)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yan Cheong
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

Rooms 1802-1803
Telford House
16 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

WEBSITE

http://www.nuigl.com

COMPLIANCE OFFICER

Hua Zhixiang

QUALIFIED ACCOUNTANT

Chan Loong Sang, Tommy

COMPANY SECRETARY

Chan Loong Sang, Tommy

AUTHORISED REPRESENTATIVES

Hua Zhixiang
Tang Kwok Yuen

MEMBERS OF THE AUDIT COMMITTEE

Chan Yan Cheong
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
Gound Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Notes: (i) Mr. Hua Zhixiang was appointed on 7 June 2002.
(ii) Mr. Xi Yu was appointed on 7 June 2002.
(iii) Mr. Chan Loong Sang, Tommy was appointed on 2 January 2003.
(iv) Mr. Yuen Kim Hung, Michael was appointed on 24 April 2002.

On behalf of the board of directors (the "Board") of New Universe International Group Limited (the "Company") (formerly known as Smartech Digital Manufacturing Holdings Limited), I am pleased to present to the shareholders the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2002.

BUSINESS REVIEW

Overall

The business in 2002 was adversely affected by the alleged departure of Mr. Law Man Ming, a former executive Director, from Hong Kong. The reputation of the Group and confidence of the bankers, suppliers and customers of the Group was affected. The Group has been facing pricing pressures from both customers and suppliers and the competitive profit margin of the tooling and molding business.

Under such financially difficult circumstances, New Universe Enterprises Limited ("New Universe") acquired a 29% equity interest in the Company from the original controlling shareholder, Diamonds and Pearls Limited, in May 2002. Since New Universe has become the single largest shareholder, new management has been introduced into the Board since June 2002. The new management team, together with the support of New Universe, has taken the following measures and strategies to relieve the financial difficulties and revive the business operations of the Group:

(i) *Inject cash in the form of shareholder's loans*

New Universe has injected cash in the form of shareholder's loans of HK$25.0 million in aggregate to the Group to repay part of its borrowings and settle legal claims from or litigation with creditors.

(ii) *Corporate guarantee in favour of the Company*

New Universe, through its related company, provided a corporate guarantee of HK$10.0 million in favour of the Company to secure a bank facility to the Company of the same amount.

(iii) *Streamlining the business operations and improving operating efficiency of the Group*

The new management has been endeavoured to streamline the business operations and improve operating efficiency of the Group; therefore the new management has been reviewing the performance of the individual companies within the Group with an objective to improving the overall performance of the Group.

CHAIRMAN'S STATEMENT

After the review, the new management of the Company is of the view that Smartech Limited (Canada) and Smartech Manufacturing Limited (Canada), two wholly-owned subsidiaries of the Company, underperformed and the closing down of these two subsidiaries can generally improve the performance of the Group and the resources released can be diverted to the more cost effective aspect of the operations. Therefore, the Group has liquidated all assets and disposed of all the issued share capital of these two subsidiaries. Nevertheless, the new management of the Company reckoned that there remains business opportunities for the Group in North America and intended to maintain the presence of the Group in the tooling market in the region by serving its customers there through a sales team, comprising experienced sales staff, in particular, with molds selling experience in North America, Hong Kong and the People's Republic of China, specially set up in Hong Kong for this purpose. In addition, as more and more North American customers are sourcing tooling directly from the People's Republic of China and they may have procurement offices in the People's Republic of China, it would be more cost effective to deal with the customers in Hong Kong and the People's Republic of China.

Subsequent to the balance sheet date, on 19 March 2003, the Group entered into a sales and purchase agreement to dispose a wholly-owned subsidiary of the Company, Sky Datamann (Hong Kong) Limited, for a consideration of HK$1.00 to an independent third party, resulting in a gain on disposal of a subsidiary approximately HK$10.0 million. The gain will be recorded in the consolidated financial statements of the Company for the quarterly ended 31 March 2003.

(iv) Open offer and loan capitalisation

On 11 February 2003, the Company proposed to raise approximately HK$3.5 million, after expenses, by way of open offer of 94 million shares at a subscription price of HK$0.05 per share, and capitalise of HK$10.0 million shareholder's loan to subscribe 200 million new shares at a subscription price of HK$0.05 per share. The entire amount of the net proceeds from the open offer will be used to repay the Company's borrowings. Upon completion of the open offer and the loan capitalisation, the gearing ratio are expected to be reduced from 538% to 213% and the net tangible asset value is expected to be enlarged from HK$13.0 million to HK$26.5 million. With an enhancement in the financial position of the Group, the Board believes that the Company will be placed in a better position to secure additional financial resources for the business development of the Group.

Tooling and plastic injection business

The new management was dedicated to strengthening its core business although the Group has been experiencing financial difficulties, and losses of reputation and confidence of bankers, suppliers and customers in 2002. However, keen competition, decrease in consumer demand as affected by the global economic downturn, and the financial difficulties the Group previously encountered have depressed the performance of the Group significantly. For the year ended 31 December 2002, turnover of the Group decreased by 51% to HK$50.4 million from HK$102.1 million and gross profit margin of the Group declined to 11% from 26%. Price pressures from both customers and suppliers inevitably affected the gross profit margin of the tooling and molding business of the Group. Besides, the production costs of the Group did not drop to the same extent as the decrease in its turnover since the Group has to bear certain fixed overheads such as direct labour, factory rental and depreciation expenses in the period under review.

During the year of 2002, the Group implemented certain cost saving measures by redesigning some administrative process to reduce the administrative and other operating expenses.

CHAIRMAN'S STATEMENT

PROSPECTS

Since New Universe became the single largest shareholder in May 2002, the new management has been introduced to the Board to enhance operating efficiency and to redefine the corporate strategy of the Group with an objective to delivering shareholders' values in the long run. In addition, the existing business of the group companies of New Universe (which includes trading and manufacturing of chemicals and plastic materials) would compliment to the existing business of the Group. The Board believes that with the direction of the new management and the synergy with group companies of New Universe, a better prospect will be brought to the Group in the foreseeable future.

Enterprise Resource Planning system

The Group has partially implemented an Enterprise Resource Planning system. The Enterprise Resource Planning system is a computer software which integrates computer software used in different departments within a company to a single, integrated software program that runs on a single database so that various departments can share the information on the database and communicate with each other. It is expected that full implementation will be completed in September 2003. Upon full implementation, the system will provide the Group with more timely and accurate information on material and production capacity planning. With the aid of the system, the Group will be able to handle customer orders within a shorter period of order lead-time. The Group will take every measure to enhance its operating efficiency and to control operating costs so as to increase its competitiveness.

Investment in Changjiang River Delta

Given that the People's Republic of China has been admitted to the World Trade Organisation, the new management anticipate that business opportunities for the Group in the People's Republic of China will increase. The Group will put all its efforts to expand the market in the People's Republic of China to further strengthen its customer base, especially in the region of the Changjiang River Delta. The new management plans to capitalise on the customer network and connection of New Universe and its group companies to enlarge the customer base of the Group and to develop business opportunities for the Group around Shanghai and the Changjiang River Delta in order to further expand its market share in the People's Republic of China market.

Professional Injection Mold System

The Professional Injection Mold System programme jointly developed by the Group and the Department of Mechanical Engineering of the University of Hong Kong with the support of the

Hong Kong Innovation and Technology Commission (formerly known as the Hong Kong Innovation and Technology Fund) is on schedule. The Professional Injection Mold System is a software application linking between mold making operations and the computer-aided design system. With the aid of the software, molds can be designed directly from the computer-aided design models. It offers a fast and reliable solution for mold design and is able to shorten the design time and enhance the production quality. A seminar was arranged to introduce the system to industrialists in Hong Kong and the People's Republic of China. The Group is planning to conduct research on the potential commercial market in respect of the Professional Injection Mold System Project and exhibitions and seminars will be arranged to introduce the system to industrialists in Hong Kong and the People's Republic of China.

Streamlining the business operations and improving operating efficiency of the Group

The new management will continue to streamline the business operations and improve the operating efficiency of the Group. Certain cost control measures and reallocation of its resources have been implemented in order to increase the shareholders' values in the long run.

The Board is confident in rebuilding the Group as one of the leaders in the tooling and plastic injection business in the Asia Pacific Region and it is anticipated that the Group will benefit from the coming economic recoveries.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group achieved a turnover of approximately HK$50.4 million (2001: HK$102.1 million) which represented a decrease of 51% over the previous year. During the year, revenue generated from mold products accounted for 67% (2001: 75%) of the Group turnover while plastic products contributed the remaining 33% (2001: 25%).

A majority of the Group turnover is derived from the mold products. For the year ended 31 December 2002, mold products reported a turnover of HK$33.8 million, a 56% decrease from HK$76.8 million in the previous year. The decrease was mainly attributable to the dropping of selling price between 8% and 10% as compared to the previous year and loss of sales orders from customers, especially in North America.

Plastic products experienced a decrease in turnover of 34% to HK$16.6 million in 2002 from HK$25.2 million in 2001. Such decrease was mainly due to the dropping of sales orders from customers under the negative market sentiment.

The major sales regions of the Group in year 2001 – Hong Kong, North America and Japan have decreased by 34%, 73% and 62% respectively. In year 2002, Hong Kong, People's Republic of China and North America were the major sales regions of the Group. The sales from these regions constituted over 74% (2001: 71%) of the Group turnover.

Cost of sales for the year ended 31 December 2002 amounted to approximately HK$45.1 million, representing a decrease of 40% from HK$75.7 million in the previous year. The production costs did not drop to the same extent as the decrease on turnover since the Group has to bear certain fixed overheads, such as direct labour, factory rental and depreciation expenses.

The gross profit margin of the Group has been declining to approximately 11% (2001: 26%).

The aggregate of administrative expenses, other operating expenses and net loss on abandonment of a discontinued operation of the Group decreased by 67% to HK$34.5 million in 2002 from HK$105.4 million in 2001. The sharp decrease was mainly attributable to the following:

(i) no further administrative expenses nor impairment of goodwill were incurred by data centre business, which resulted in the decrease by approximately HK$38.6 million;

(ii) no further administrative expenses were incurred after closing down the business in North America which resulted in the decrease by approximately HK$3.8 million;

(iii) no provision against investments which resulted in the decrease by HK$17.6 million; and

(iv) effective control by the new management and decrease in staff employed in both production and administrative departments which resulted in the decrease of salary and allowances by approximately HK$7.0 million.

Net Loss from Ordinary Activities Attributable to Shareholders

The Group recorded a net loss after taxation and minority interests of HK$31.2 million for 2002, whereas a net loss of HK$77.6 million was recorded for the year ended 2001.

Liquidity and Financial Resources

The Group generally financed its operations and investing activities with internally generated cash flows, shareholder's loans and trade facilities granted by a banker.

In the foreseeable future, the Group intends to finance its operations with the funds from deposits received from customers and a banking facility.

As at 31 December 2002, unsecured and interest free shareholder's loans of HK$25.0 million was granted by New Universe to the Company. Subsequent to the balance sheet date, HK$10.0 million shareholder's loans of the Company is proposed to be capitalised to its share capital. The remaining of the unsecured and interest free shareholder's loans amounting to HK$15.0 million shall be repaid in one lump sum upon 31 May 2004. As at 31 December 2002, the Group had total cash and bank balances of approximately HK$1.9 million. The Group had outstanding borrowings of approximately HK$32.0 million, comprising secured trust receipt loans of approximately HK0.8 million, finances lease payables of approximately HK$6.2 million and unsecured shareholder's loans of HK$25.0 million. Out of the total indebtedness, approximately HK$4.8 million is repayable within one year. The gearing ratio was 538% as at 31 December 2002, representing total liabilities of HK$69.9 million divided by capital employed of HK$13.0 million.

Capital Structure

No material change in the capital structure of the Company for the year ended 31 December 2002.

Material Acquisition and Disposals of Subsidiaries

Save as disclosed in the Section of "Business Review", there were no significant investments nor material acquisition and disposals of subsidiaries and affiliated companies of the Company during the year.

Employee Information

As at 31 December 2002, the Group had 475 (2001: 556) full-time employees. Staff costs, excluding directors' remuneration but including amount capitalized as work-in-progress was HK$16.2 million (2001: HK$28.2 million) for the year. Employees were paid at market remuneration with bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training.

Charges on Assets

With the net book value of fixed assets of the Group of HK$60.0 million (2001: HK$77.6 million), the net book value of fixed assets held under finance leases amounted to HK$15.3 million (2001: HK$17.0 million) as at 31 December 2002. Apart from the finance lease arrangement, there were no charges on assets as at 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Plans for Material Investments or Capital Assets

The future plans of the Group for material investments or capital assets shall be in line with what have been stated in the section of "Comparison of Business Objectives with Actual Business Progress" of the Company's annual report as at 31 December 2002. Save as disclosed in the section of "Prospects", up to the date of this annual report, there have been no other plans for investments or capital assets that will require sources of funding from the internal resources of the Group.

Exposure to Exchange Rate Fluctuations

During the year ended 31 December 2002, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated and most of the business were conducted in Hong Kong Dollars, US Dollars, Canadian Dollars and Renminbi, and all of which were relatively stable during the period 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

Details of the significant contingent liabilities of the Group are set out in note 32 to the financial statements.

DIRECTORS

Executive Directors

Mr. Hua Zhixiang, aged 33, is the Chairman and the compliance officer of the Company. He is responsible for the overall policy setting, management and strategic development of the Group. Mr. Hua holds a bachelor's degree in arts and a bachelor's degree in laws from the Foreign Affairs College, Beijing. Before he joined the Group on 7 June 2002, he held senior positions in companies engaged in financial and investment services. He has over 9 years of extensive experience in the financial and investment sector prior to his founding of New Universe.

Mr. Tang Kwok Yuen, aged 50, is an executive Director and one of the founders of the Group. He is responsible for the sales and marketing, research and development and engineering functions of the Group. He also assists the Chairman in corporate strategic planning and development. He holds a Master of Business Administration degree from the International University of America in the United States of America and a diploma in management studies from the Hong Kong Polytechnic University. He has over 20 years of experience in the molding and plastic industries.

Mr. Xi Yu, aged 45, is an executive Director. Mr. Xi joined the Group on 7 June 2002. He assists the Chairman in corporate strategic planning and development. Mr. Xi graduated from the Chemistry Department of the University of Beijing in 1980 and has over 17 years of experience in the plastic industry. He was the Deputy Managing Director of Sinochem Plastics (HK) Ltd. from 1988 to 1995.

Mr. Chan Loong Sang, Tommy, aged 31, is an executive Finance Director and the Company Secretary of the Company. Mr. Chan joined the Board on 2 January 2003. He is primarily responsible for the financial planning, investment activities and corporate financial management of the Group. Mr. Chan holds a bachelor's degree of commerce with double majors in accountancy and finance from the University of Lethbridge Alberta in Canada. He is a member of The American Institute of Certified Public Accountants, Hong Kong Society of Accountants and Association of Chartered Certified Accountants. He has worked for international accounting firms and has extensive experiences in accounting, tax, auditing and corporate finance prior to joining the Group in July 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Dr. Chan Yan Cheong, aged 49, is an independent non-executive Director. He 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 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. He joined the Group on 24 April 2002. Mr. Yuen holds a professional diploma in accountancy from the Hong Kong Polytechnic University. He is a member of 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. Huang Gan, age 41, is General Manager of Dongguan Smartech Tooling and Plastic Limited, a wholly-owned subsidiary of the Group. Mr. Huang is responsible for the overall policy setting in sales and marketing, administration and human resources management for Dongguan Smartech Tooling and Plastics Limited. He has more than 20 years of experience in factory management and business development in the plastics industry. Mr. Huang holds a bachelor's degree in science from South China University of Technology.

Ms. Wong Mui Kwai, Portia, age 38, is an Assistant to Chairman. She holds a bachelor's degree of arts in accountancy with second class honors, Division 1, from the Hong Kong Polytechnic University. Before she joined the Group in June 2002, she has over 10 years of experience in accounting and administration in the fields of manufacturing and trading.

Mr. Zheng Wei Jian, Jacky, age 38, is a Deputy General Manager of Dongguan Smartech Tooling and Plastics Limited, a wholly-owned subsidiary of the Group. Mr. Zheng is responsible for the sales and marketing in the People's Republic of China and assists General Manager in molding techniques. Prior to his joining the Group, he worked as a senior project engineer and a technical consultant in a worldwide manufacturing company for over 8 years. He holds a bachelor's degree in mechanical engineering from Dalian Industry & Technology University. He has more than 10 years of experience in the molding and plastics industries.

Mr. Chao On Kwok, aged 49, is a Sales & Marketing Manager of the Group. He holds a higher diploma in purchase and supplies from the Hong Kong Polytechnic University. He has over 20 years of experience in sales & marketing in various industrial segments. He is responsible for the sales and marketing activities in overseas markets, especially in North America and European Union (including United Kingdom and France) of the Group.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as disclosed in the prospectus of the Company dated 9 May 2000 (the "Prospectus")	Actual business progress up to 31 December 2002
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 was 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 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 was implemented.
HK$4 million will be applied	HK$4 million was spent in year 2000 on the purchase of machine and expanded 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 in year 2001 and year 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as disclosed in the prospectus of the Company dated 9 May 2000 (the "Prospectus")	Actual business progress up to 31 December 2002
To focus on research and development and set up a new department for production	A new department was set up for research and development and for future production.
HK$11 million will be applied	HK$11 million has been invested up to 31 December 2002 on the purchase of new machinery, the upgrading of existing machinery and the research and development project.

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 was 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 completed the study of the production plan of plastic double injection products. Such plan was implemented and machines were purchased for production in year of 2001.
HK$4 million will be applied	HK$4 million out of the listing proceeds was spent in year 2001 on the purchase of machinery for production.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as disclosed in the prospectus of the Company dated 9 May 2000 (the "Prospectus")	Actual business progress up to 31 December 2002
DESIGN AND DEVELOPMENT	
Business plans	
To upgrade application softwares	Suitable software and hardware were identified and some were purchased by the Group in accordance with the intention of the Group to develop high speed machinery. The progress of the development of mold design software with the University of Hong Kong has been satisfactory. Both the University of Hong Kong and the Company are working towards to release the first draft version of the software in the market in the foreseeable future.
HK$5 million will be applied	HK$5 million was spent on the upgrading of application software, the expansion of the design and development department and the development of advanced technique on plastic double injection molds production process.
MARKETING AND SALES	
Business plans	
To set up new sales offices in the mid West/West coast of the United States and in some major cities of People's Republic of China for expansion and strengthening of its distribution network	Sales offices had been set up in Beijing and Shanghai to expand and strengthen the distribution networks.
To advertise and promote the products of the Group	Intensive marketing campaigns for advertising and promoting the products of the Group were launched.
HK$5 million will be applied	HK$5 million was spent on marketing activities and set up of sales offices to accelerate the People's Republic of China marketing development plan.
OTHERS	
Business plans	
To use as general working capital	
HK$4 million will be applied	HK$4 million was 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 2002 are as follows:

	Amount extracted from the Prospectus		
	Total amount to be used up to 31 December 2003	**Amount planned to be used up to 31 December 2002**	**Actual amount used up to 31 December 2002**
	HK$	***HK$***	***HK$***
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**	**11,000,000**	**11,000,000**
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**	**5,000,000**	**5,000,000**
Marketing and sales			
To set up new sales offices in the mid West/West coast of the United States and in some major cities in the People's Republic of China for expansion and strengthening of its distribution network			
To advertise and promote the products of the Group	**5,000,000**	**4,000,000**	**5,000,000**
Others			
To use as general working capital	**4,000,000**	**4,000,000**	**4,000,000**
TOTAL	**39,000,000**	**38,000,000**	**39,000,000**

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

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. There were no significant changes in the nature of the principal activities of the Group during the year.

CHANGE OF COMPANY NAME

Pursuant to a special resolution of the Company passed on 21 June 2002, the Company changed its name from Smartech Digital Manufacturing Holdings Limited to New Universe International Group Limited with effect from 21 June 2002.

Pursuant to a special resolution of the Company passed on 18 November 2002, the Chinese name of the Company was changed from 新宇國際集團有限公司 to 新宇國際實業(集團)有限公司 with effective from 18 November 2002.

FINANCIAL RESULTS

The loss of the Group for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 69.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the past five financial years is set out on page 70. This summary does not form part of the audited financial statements.

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 the reasons therefor, are set out in notes 27 and 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 29 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no reserves available for distribution.

REPORT OF THE DIRECTORS

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.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hua Zhixiang *(Chairman)*	(Appointed on 7 June 2002)
Mr. Tang Kwok Yuen *(Vice-Chairman)*	
Mr. Xi Yu	(Appointed on 7 June 2002)
Mr. Law Man Ming	(Retired on 21 June 2002)
Mr. Chan Ngai Sang, Kenny	(Resigned on 1 November 2002)

Non-executive directors:

Mr. Yaw Chee Weng	(Resigned on 5 March 2002)
Mr. Shiro Murai	(Resigned on 8 March 2002)

Independent non-executive directors:

Dr. Chan Yan Cheong	
Mr. Yuen Kim Hung, Michael	(Appointed on 24 April 2002)
Mr. Lee Kwan Hung, Eddie	(Resigned on 26 March 2002)

Subsequent to the balance sheet date, on 2 January 2003, Mr. Chan Loong Sang, Tommy was appointed as an executive director of the Company.

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 11 to 12 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Law Man Ming entered into a service contract with the Company for an initial term of three years commencing from 4 May 2000 and containing thereafter until terminated by not less than six months' notice in writing served by either party without payment of any compensation. Mr. Law Man Ming retired as an executive director of the Company on 21 June 2002.

Both Mr. Tang Kwok Yuen and Mr. Chan Ngai Sang, Kenny entered into service contracts with the Company for an indefinite term commencing from 1 July 2002 until terminated by not less than one months' written notice served by either party or payment in lieu of such notice to the other party. Mr. Chan Ngai Sang, Kenny resigned as an executive director of the Company on 1 November 2002.

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' INTERESTS IN CONTRACTS

Except as detailed in note 33 to the financial statements, no directors had a beneficial interest in any contract of significant to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	**Number of ordinary shares held (Corporate interest)**
Mr. Xi Yu ("Mr. Xi")	*(Note)* 136,300,000

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

Note: Mr. Xi is the beneficial owner of 16,350 shares in New Universe, representing approximately 81.75 per cent. of the issued share capital of NUEL, which in turn holds 136,300,000 shares in the Company, representing approximately 29 per cent. of the issued share capital of the Company.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option schemes disclosures in note 28 to the financial statements, 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 director 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 a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Due to the adoption during the year of Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option schemes have been moved to note 28 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10 per cent. or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of the Company's issued share capital
New Universe *(Note i)*	136,300,000	29
Mr. Xi Yu *(Note i)*	136,300,000	29
Joyful Way Holdings Limited *(Note ii)*	53,550,000	11.39

Notes:

(i) New Universe is beneficially owned as to approximately 81.75 per cent. by Mr. Xi who is an executive director of the Company.

(ii) Joyful Way Holdings Limited is beneficially owned as to approximately 73.1 per cent. by Mr. Yaw Chee Weng (a former non-executive director of the Company resigned on 5 March 2002) and as to approximately 26.9 per cent. by Mr. Chan Ngai Sang, Kenny (a former executive director of the Company resigned on 1 November 2002).

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

On 1 December 1999, a tenancy agreement was entered into between Mass Source Investment Limited ("Mass Source") as the landlord and the Group as the tenant whereby Mass Source agreed to lease to the Group an office located in Tsing Yi, New Territories for a term of three years commencing on 1 December 1999, at a monthly rental of HK$51,000. The tenancy agreement was terminated in February 2002. Mass Source is beneficially owned by Mr. Tang Kwok Yuen, who is an executive director of the Company.

On 13 June 2002, a cross guarantee was executed between the Company and a related company for a bank facility up to a total facility amount of HK$10.0 million (the "Facility"). The related company is beneficially owned by Mr. Xi who is an executive director of the Company. Pursuant to a deed of repayment dated 13 June 2002 entered between the Company and New Universe, a substantial shareholder of the Company, in which both Mr. Xi and Mr. Hua Zhixiang, executive directors of the Company, have beneficial interest. Upon default of any obligation from the related company under the Facility, the guarantee given by the Company will be satisfied through the offset against the shareholder's loans up to HK$10.0 million. Subsequent to the balance sheet date, on 27 February 2003, the cross guarantee was released and replaced by a corporate guarantee solely provided by the related company.

Prior to 31 May 2002, New Universe has advanced HK$16.2 million to the Group as shareholder's loans. During the period between July and September 2002, New Universe further advanced HK$8.8 million. As at 31 December 2002, the aggregate of shareholder's loans due to New Universe was HK$25.0 million. The balance is unsecured and interest-free and of which, HK$10.0 million of the shareholder's loans shall be paid by the Company in one lump sum by 31 May 2003. Subsequent to the balance sheet date, this portion of the loan is proposed to capitalise as the Company's new shares. The remaining balance of the loan of Hk$15 million is unsecured, interest-free and shall be paid in one lump sum on 31 May 2004.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and the largest customer of the Group included therein accounted for 39% and 12%, respectively, of the total turnover for the year. The five largest suppliers and the largest suppliers of the Group included therein accounted for 56% and 19%, respectively, of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, 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 34 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 of the Company 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 2002, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial"), has confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest 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 interest 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 between into the Company and Asia Financial, Asia Financial received a fee for acting as the Company's retained sponsor for the period from 18 May 2000 to 31 December 2002.

AUDIT COMMITTEE

The Company established an audit committee in 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 is also be responsible for reviewing the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors of the Company, who at the beginning of the year were Dr. Chan Yan Cheong and Mr. Lee Kwan Hung, Eddie. Mr. Lee Kwan Hung, Eddie resigned on 26 March 2002 and Mr. Yuen Kim Hung, Michael was appointed as an independent non-executive director and a member of the audit committee on 24 April 2002. The audit committee has held four meetings during the year ended 31 December 2002 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 Rules 5.28 to 5.39 of the GEM Listing Rules since it was listed on the 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

Hua Zhixiang
Chairman

Hong Kong
27 March 2003

REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
NEW UNIVERSE INTERNATIONAL GROUP LIMITED
(Formerly Smartech Digital Manufacturing Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion above, attention is drawn to the fact that our audit report for the year ended 31 December 2001 (the "2001 auditors' report") was qualified in respect of (i) payments for a transfer of technology know-how of HK$8.8 million (the "Payments"); and (ii) a deposit paid for a proposed investment of HK$5 million (the "Deposit"), both of which were fully provided for because it was considered by the directors that the amounts would not be recoverable. Further details of the provisions are set out in note 8(b) to the financial statements.

As more fully explained in the 2001 auditors' report, we were unable to obtain the evidence that we considered necessary in order to assess the appropriateness of the Payments or the underlying nature of the proposed transaction to which the Deposit related and as a consequence whether the resulting provisions were appropriate.

During the current year, there have been no significant events which would suggest that the Group may recover the Payments or the Deposit and, accordingly, they remain fully provided for.

Ernst & Young
Certified Public Accountants

Hong Kong
27 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
TURNOVER			
Continuing operations	7	**50,390**	102,089
Cost of sales		**(45,122)**	(75,666)
Gross profit		**5,268**	26,423
Other revenue and gains	7	**990**	5,447
Selling and distribution costs		**(1,435)**	(2,851)
Administrative expenses		**(21,162)**	(50,157)
Other operating expenses	8	**(13,338)**	(31,990)
Loss on abandonment of a discontinued operation, net	5	**–**	(23,297)
LOSS FROM OPERATING ACTIVITIES	9	**(29,677)**	(76,425)
Finance costs	10	**(1,521)**	(1,567)
LOSS BEFORE TAX			
Continuing operations		**(31,198)**	(43,116)
Discontinued operation	5	**–**	(34,876)
		(31,198)	(77,992)
Tax			
Continuing operations	13	**–**	364
LOSS BEFORE MINORITY INTERESTS		**(31,198)**	(77,628)
Minority interests		**7**	8
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	14, 29	**(31,191)**	(77,620)
LOSS PER SHARE (cents)	15		
Basic		**(6.64)**	(17.12)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	16	**59,945**	77,582
CURRENT ASSETS			
Inventories	18	**10,812**	17,538
Trade receivables	19	**5,258**	11,684
Prepayments, deposits and other receivables		**3,591**	7,813
Tax recoverable		**1,401**	1,401
Cash and bank balances		**1,850**	5,734
		22,912	44,170
CURRENT LIABILITIES			
Interest-bearing bank borrowings	20	**834**	4,574
Trade and bills payables	21	**9,086**	21,833
Deposits received		**7,387**	13,848
Accrued liabilities and other payables		**16,680**	23,448
Finance lease payables	22	**3,934**	5,563
Tax payable		**2,124**	2,124
		40,045	71,390
NET CURRENT LIABILITIES		**(17,133)**	(27,220)
TOTAL ASSETS LESS CURRENT LIABILITIES		**42,812**	50,362
NON-CURRENT LIABILITIES			
Finance lease payables	22	**(2,277)**	(4,375)
Shareholder's loans	23	**(25,000)**	–
Due to a director	24	**(1,654)**	–
Other payables	25	**–**	(1,481)
Deferred tax	26	**(900)**	(900)
		(29,831)	(6,756)
MINORITY INTERESTS		**–**	(23)
		12,981	43,583
CAPITAL AND RESERVES			
Issued capital	27	**23,500**	23,500
Reserves	29	**(10,519)**	20,083
		12,981	43,583

Hua Zhixiang
Director

Xi Yu
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
Total equity at 1 January		**43,583**	99,332
Exchange differences on translation of the financial statements of overseas subsidiaries and net gains and losses not recognised in the profit and loss account	*29*	**601**	(90)
Release of exchange fluctuation reserve on liquidation of overseas subsidiaries	*29*	**(12)**	–
Impairment of goodwill	*29*	–	3,761
Net loss from ordinary activities attributable to shareholders	*29*	**(31,191)**	(77,620)
Issue of shares, including share premium	*27*	–	18,200
Total equity at 31 December		**12,981**	43,583

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	2002 HK$'000	2001 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(31,198)**	(77,992)
Adjustments for:		
Interest expenses	**1,521**	1,567
Interest income	**(13)**	(391)
Fixed assets written-off	**5,770**	–
Loss/(gain) on disposal of fixed assets	**216**	(12)
Provision for doubtful debts	**3,068**	6,245
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
Loss on liquidation of subsidiaries	**1,717**	–
Impairment of fixed assets	**–**	700
Impairment of goodwill	**–**	3,761
Negative goodwill recognised as income	**(16)**	(1,793)
Depreciation	**11,842**	17,763
Operating loss before working capital changes	**(7,093)**	(9,255)
Decrease in inventories	**5,716**	5,332
Decrease in trade receivables	**5,436**	17,839
Decrease in prepayments, deposits and other receivables	**1,690**	3,408
Decrease in trade and bills payables	**(12,557)**	(4,965)
Increase/(decrease) in accrued liabilities and other payables	**(4,440)**	6,322
Decrease in deposits received	**(5,159)**	(8,505)
Decrease in trust receipt loans	**(1,871)**	(10,757)
Increase in amount due to a director	**1,654**	–
Cash used in operations	**(16,624)**	(581)
Interest received	**13**	391
Interest paid	**(226)**	(443)
Interest element on finance lease rental payments	**(1,295)**	(1,124)
Hong Kong profits tax paid	**–**	(5,861)
Net cash outflow from operating activities	**(18,132)**	(7,618)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**(760)**	(1,751)
Proceeds from disposal of fixed assets		**634**	53
Acquisition of subsidiaries	*30(a)*	**–**	(5,791)
Liquidation of subsidiaries	*30(b)*	**(205)**	–
Purchase of other investment		**–**	(3,800)
Payments for a transfer of technology know-how		**–**	(8,800)
Deposit paid for a proposed investment		**–**	(5,000)
Net cash outflow from investing activities		**(331)**	(25,089)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of bank loans		**–**	4,673
Repayment of bank loans		**(1,869)**	(2,804)
Loans from a shareholder		**25,000**	–
Capital element of finance lease rental payments		**(8,557)**	(5,443)
Decrease in pledged time deposits		**–**	6,300
Net cash inflow from financing activities		**14,574**	2,726
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(3,889)**	(29,981)
Cash and cash equivalents at beginning of year		**5,734**	35,702
Effect of foreign exchange rate changes, net		**5**	13
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,850**	5,734
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,850**	5,734

BALANCE SHEET

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**37,948**	42,708
CURRENT ASSETS			
Cash and bank balances		**59**	148
CURRENT LIABILITIES			
Interest-bearing bank borrowings	20	**834**	–
Accrued liabilities		**70**	–
		904	–
NET CURRENT ASSETS/(LIABILITIES)		**(845)**	148
TOTAL ASSETS LESS CURRENT LIABILITIES		**37,103**	42,856
NON-CURRENT LIABILITIES			
Shareholder's loans	23	**(25,000)**	–
		12,103	42,856
CAPITAL AND RESERVES			
Issued capital	27	**23,500**	23,500
Reserves	29	**(11,397)**	19,356
		12,103	42,856

Hua Zhixiang
Director

Xi Yu
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2002

1. CORPORATE INFORMATION

The registered office of New Universe International Group Limited is located at 1802–1803, 18/F, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong.

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

2. CORPORATE UPDATE

In preparing the financial statements, the directors of the Company have given careful consideration to the liquidity position and going concern status of the Group.

During the year, the Group obtained additional funding from its major shareholder, New Universe Enterprises Limited ("New Universe"), by way of interest-free shareholder's loans aggregating HK$25 million (the "Shareholder's Loans"). As a consequence thereof, the Group's overdue bank loans and finance lease obligations were settled.

In June 2002, a banking facility of HK$10 million was obtained by the Company, which is secured by a corporate guarantee given by a related company of which Mr. Xi Yu ("Mr. Xi"), an executive director of the Company, is a director and beneficial shareholder.

On 10 February 2003, a subscription agreement was entered into between the Company and New Universe, whereby New Universe agreed to subscribe for 200,000,000 new shares of the Company at HK$0.05 each. The subscription price of HK$10 million is to be satisfied by the capitalisation of part of the Shareholder's Loans of HK$10 million (the "Loan Capitalisation").

On 11 February 2003, the Company announced that it proposed to raise HK$4.7 million, before expenses, by way of an open offer of one offer share for every five existing shares at a subscription price of HK$0.05 each (the "Open Offer"). New Universe has undertaken to fully underwrite the Open Offer.

Further details of the Open Offer and the Loan Capitalisation were contained in the Company's circular dated 4 March 2003 and prospectus dated 20 March 2003. The aforesaid transactions were approved by the independent shareholders of the Company at an extraordinary general meeting held on 20 March 2003.

In addition, the Group also disposed of its entire issued share capital in Sky Datamann (Hong Kong) Limited ("Sky Datamann HK") on 19 March 2003 (note 5). Sky Datamann HK had a net deficiency in assets of approximately HK$11.1 million as at 31 December 2002. The disposal of Sky Datamann HK enables the Group to improve its overall consolidated financial position.

Having regard to the foregoing refinancing measures, the nature and scale of the Group's operations and taking into account the present available financing facilities, the directors of the Company are satisfied that the Group will be able to meet its financial obligations in full as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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

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

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 28 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and a joint venture company are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 4 to the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries and a joint venture company arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 4 to the financial statements.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of certain new additional disclosures which are set out in note 5 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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 2002. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 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%
Computers 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

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 to be incurred to completion and disposal.

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. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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.

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

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and a joint venture company are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and a joint venture company are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and a joint venture company which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries and a joint venture company and the cash flows of overseas subsidiaries and a joint venture company were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement.

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.

NOTES TO FINANCIAL STATEMENTS

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

Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. 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 MPF Scheme. The assets of the MPF 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 MPF 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. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the state-sponsored retirement plan.

Share option schemes

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares 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. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

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

Goodwill *(Continued)*

On the 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.

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 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 the 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.

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.

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

Provisions *(Continued)*

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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 of which were contained in the Company's circular dated 26 February 2001. Sky Datamann International holds a subsidiary, Sky Datamann HK, which was engaged in the provision of an Internet server co-location centre solely operated in Hong Kong. In December 2001, the Group abandoned its operation of such business.

Subsequent to the balance sheet date, on 19 March 2003, a sale and purchase agreement was entered into between the Group and Centapoint Limited ("Centapoint"), an independent third party, whereby the Group agreed to dispose of its entire issued share capital in Sky Datamann HK to Centapoint for a consideration of HK$1 (the "Disposal"). The Disposal was completed on 19 March 2003, resulting in an estimated gain of HK$10 million.

5. DISCONTINUED OPERATION *(Continued)*

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

	2002	2001
	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 included an impairment in value of fixed assets of HK$32,261,000, the write-off of various deposits of HK$1,198,000 and negative goodwill recognised of HK$10,162,000 (see note 7 for further details).*

The carrying amounts of the total assets and liabilities relating to the discontinued operation at 31 December are as follows:

	2002	2001
	HK$'000	*HK$'000*
Total assets	–	125
Total liabilities	**(11,146)**	(11,146)
Net liabilities	**(11,146)**	(11,021)

For the year ended 31 December 2001, the discontinued operation gave rise to operating cash outflows of HK$585,000, but had no significant impact in respect of the Group's cash flows for investing and financing activities.

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6. SEGMENT INFORMATION

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 intersegment transactions.

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

Group

	Continuing operations				Discontinued operation			
	Mold products		Plastic products		Data centre		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	33,793	76,849	16,597	25,240	–	–	50,390	102,089
Other revenue	492	2,288	81	11	–	2,241	573	4,540
Total	34,285	79,137	16,678	25,251	–	2,241	50,963	106,629
Segment results	(21,966)	(23,439)	(6,163)	(10,003)	–	(34,876)	(28,129)	(68,318)
Unallocated other revenue							417	907
Unallocated expenses							(1,965)	(9,014)
Loss from operating activities							(29,677)	(76,425)
Finance costs							(1,521)	(1,567)
Loss before tax							(31,198)	(77,992)
Tax							–	364
Loss before minority interests							(31,198)	(77,628)
Minority interests							7	8
Net loss from ordinary activities attributable to shareholders							(31,191)	(77,620)

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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

	Continuing operations				Discontinued operation			
	Mold products		Plastic products		Data centre		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**52,612**	77,426	**26,500**	38,164	**–**	125	**79,112**	**115,715**
Unallocated assets							**3,745**	**6,037**
Total assets							**82,857**	**121,752**
Segment liabilities	**16,754**	33,186	**2,564**	9,329	**11,146**	11,146	**30,464**	**53,661**
Unallocated liabilities							**39,412**	**24,485**
Total liabilities							**69,876**	**78,146**
Other segment information:								
Depreciation	**7,625**	7,578	**3,358**	3,263	**–**	5,924		
Other non-cash expenses:								
– Fixed assets written-off	**4,736**	–	**–**	–	**–**	–		
– Loss on liquidation of subsidiaries	**1,717**	–	**–**	–	**–**	–		
– 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	**551**	2,956	**2,499**	2,966	**–**	273		
– Capital expenditure	**2,566**	4,764	**36**	4,855	**–**	2		

Note: The impairment losses recognised in the data centre segment mainly related to co-location centre facilities, building and factory improvements and computers and equipment.

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		North America*		Japan		Others		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	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	**14,179**	21,450	**13,205**	15,009	**9,831**	36,383	**9,207**	24,177	**3,968**	5,070	**50,390**	102,089
Other revenue	**–**	2,307	**263**	652	**310**	1,581	**–**	–	**–**	–	**573**	4,540
	14,179	23,757	**13,468**	15,661	**10,141**	37,964	**9,207**	24,177	**3,968**	5,070	**50,963**	106,629

	Hong Kong		Elsewhere in the PRC		North America*		Others		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	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	**7,683**	15,389	**73,495**	95,569	**278**	7,918	**–**	1,475	**81,456**	120,351
Capital expenditure	**487**	867	**2,483**	7,304	**117**	2,464	**–**	–	**3,087**	10,635

* *North America principally relates to United States and Canada.*

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7. TURNOVER, REVENUE AND GAINS

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Turnover – sale of goods	**50,390**	102,089
Interest income	**13**	391
Exchange gains, net	**191**	1,064
Negative goodwill recognised as income*	**16**	1,793
Sundry income	**770**	2,199
Other revenue and gains	**990**	5,447
Total	**51,380**	107,536

* *The movement in negative goodwill recognised in the profit and loss account of HK$16,000 for the year is included in "Other revenue" on the face of the profit and loss account. The movements in negative goodwill recognised in the profit and loss account of HK$11,955,000 in the prior year were 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.*

8. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Provision for doubtful debts	**3,068**	6,245
Fixed assets written-off	**5,770**	–
Loss on liquidation of subsidiaries – *note 30(b)*	**1,717**	–
Impairment of goodwill – *note 29*	**–**	3,761
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 confirmed 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.

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 was not in a position to exercise significant influence over the financial and operating policy decisions of DMI. Accordingly, the directors considered 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 were not successfully consummated and the listing plan of DMI was also suspended. The directors did not expect that the Group's investment in DMI would be recoverable and, accordingly, a full provision was made against the investment in the Group's profit and loss account for the year ended 31 December 2001.

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8. OTHER OPERATING EXPENSES *(Continued)*

(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 (the "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 confronted by the Group in the prior year, the directors considered that the Group might not be able to fulfil the future funding requirements for the above projects and, accordingly, full provisions aggregating HK$13.8 million were made against the payments in the Group's profit and loss account in the prior year.

During the current year, there have been no significant events which would suggest that the Group may recover the balances.

9. LOSS FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	*HK$'000*
Depreciation	**11,842**	17,763
Auditors' remuneration	**700**	720
Staff costs (exclusive of directors' remuneration disclosed in note 11):		
Wages and salaries	**16,117**	27,644
Retirement benefits scheme contributions	**158**	509
Less: Forfeited contributions	**(99)**	–
Net retirement benefits scheme contributions	**59**	509
	16,176	28,153
Minimum lease payments under operating leases:		
Land and buildings	**801**	3,146
Circuits	**–**	1,508
Payment for the use of an industrial plant	**3,505**	3,505
Cost of inventories sold	**44,680**	71,278
Research and development costs	**245**	945
Loss/(gain) on disposal of fixed assets	**216**	(12)
Impairment of fixed assets*	**–**	32,961

* *The impairment in value of fixed assets charged to the profit and loss account in the prior year were 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.*

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10. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**142**	48
Finance leases	**1,295**	1,124
Import bills	**84**	395
	1,521	1,567

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	
	2002	2001
	HK$'000	*HK$'000*
Fees	**262**	310
Other emoluments:		
Basic salaries and allowances	**1,669**	6,142
Retirement benefits scheme contributions	**22**	36
	1,953	6,488

The amounts of the remuneration paid by the Group to the two (2001: three) executive directors of the Company for the year ended 31 December 2002, analysed on an individual basis, were HK$1,120,986 (2001: HK$1,908,667), HK$570,000 (2001: HK$1,897,000) and nil (2001: HK$2,372,000), respectively.

The amounts of the remuneration paid by the Group to the three (2001: three) independent non-executive directors of the Company for the year ended 31 December 2002, analysed on an individual basis, were HK$120,000 (2001: HK$120,000), HK$82,000 (2001: Nil), HK$60,000 (2001: HK$140,000) and nil (2001: HK$50,000), 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.

There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2001: three) directors, details of whose emoluments are set out in note 11 above. Details of the remuneration of the remaining three (2001: two) non-director, highest paid employees during the year are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Basic salaries and allowances	**826**	1,106
Retirement benefits scheme contributions	**32**	21
	858	1,127

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

	Number of employees	
	2002	2001
Nil – HK$1,000,000	**3**	2

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

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 (2001: Nil). 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	
	2002	2001
	HK$'000	*HK$'000*
Provision for tax in respect of profits for the year:		
Elsewhere other than Hong Kong	–	8
Overprovision in prior years	–	(572)
Deferred tax – *note 26*	–	200
Tax credit for the year	–	(364)

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14. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, is HK$30,753,000 (2001: HK$69,956,000).

15. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$31,191,000 (2001: HK$77,620,000), and the weighted average of 470,000,000 (2001: 453,506,849) ordinary shares in issue during the year, as adjusted for the share consolidation (note 27(b)) as described below.

Diluted loss per share for the years ended 31 December 2002 and 2001 have not been presented as the effect of any dilution is anti-dilutive.

The comparative amount of the loss per share has been adjusted for the consolidation of the Company's shares on the basis of every ten existing shares of HK$0.005 each into one new share of HK$0.05 each on 11 July 2002.

16. FIXED ASSETS

Group

	Building and factory improvements	Plant and machinery	Computers and equipment	Furniture and fixtures	Motor vehicles	Co-location centre facilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:							
At beginning of year	27,699	73,359	15,774	5,043	2,966	25,711	150,552
Additions	206	2,418	201	262	–	–	3,087
Disposals/write-off	(1,481)	(11,626)	(3,180)	(998)	(733)	(25,711)	(43,729)
Exchange realignment	–	645	–	–	–	–	645
At 31 December 2002	26,424	64,796	12,795	4,307	2,233	–	110,555
Accumulated depreciation and impairment:							
At beginning of year	7,167	23,577	12,554	3,287	674	25,711	72,970
Depreciation provided during the year	1,599	8,203	670	816	554	–	11,842
Disposals/write-off	(1,047)	(5,400)	(1,612)	(424)	(206)	(25,711)	(34,400)
Exchange realignment	–	198	–	–	–	–	198
At 31 December 2002	7,719	26,578	11,612	3,679	1,022	–	50,610
Net book value:							
At 31 December 2002	18,705	38,218	1,183	628	1,211	–	59,945
At 31 December 2001	20,532	49,782	3,220	1,756	2,292	–	77,582

16. FIXED ASSETS *(Continued)*

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 computers and equipment as at 31 December 2002 amounted to HK$15,336,907 (2001: HK$14,767,247), nil (2001: HK$1,703,558) and nil (2001: HK$490,364), respectively.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**58,078**	58,078
Due from subsidiaries	**79,870**	54,630
	137,948	112,708
Provision for impairment	**(100,000)**	(70,000)
	37,948	42,708

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

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17. INTERESTS IN SUBSIDIARIES *(Continued)*

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 2002	2001	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 Technology Limited	British Virgin Islands/ Hong Kong	US$100	**100**	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

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.

17. INTERESTS IN SUBSIDIARIES *(Continued)*

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 capitals 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 is 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	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**1,165**	3,201
Work in progress	**8,296**	10,847
Finished goods	**635**	892
Consumable tools	**716**	2,598
	10,812	17,538

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 two 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	
	2002	2001
	HK$'000	*HK$'000*
Within 1 month	**2,801**	5,346
1 to 2 months	**1,075**	2,236
2 to 3 months	**175**	647
Over 3 months	**1,207**	3,455
	5,258	11,684

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20. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK'000***	*HK'000*
Bank loans, unsecured	**–**	1,869	**–**	–
Trust receipt loans:				
Secured	**834**	–	**834**	–
Unsecured	**–**	2,705	**–**	–
	834	2,705	**834**	–
Amounts due within one year classified as current liabilities	**834**	4,574	**834**	–

At the balance sheet date, all the above trust receipt loans were payable on demand or not exceeding one year. The Company's and Group's banking facility is secured by (i) a corporate guarantee from a related company of which Mr. Xi Yu ("Mr. Xi"), an executive director of the Company, is a director and beneficial shareholder; and (ii) a personal guarantee from Mr. Xi.

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	
	2002	2001
	HK$'000	*HK$'000*
Within 1 month	**1,945**	2,505
1 to 2 months	**1,582**	3,688
2 to 3 months	**1,025**	3,094
Over 3 months	**4,534**	12,546
	9,086	21,833

22. FINANCE LEASE PAYABLES

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

At 31 December 2002, 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	
	2002	2001	***2002***	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**4,423**	6,399	**3,934**	5,563
In the second year	**2,506**	3,399	**2,199**	2,986
In the third to fifth years, inclusive	**90**	1,603	**78**	1,389
Total minimum finance lease payments	**7,019**	11,401	**6,211**	9,938
Future finance charges	**(808)**	(1,463)		
Total net finance lease payables	**6,211**	9,938		
Portion classified as current liabilities	**(3,934)**	(5,563)		
Non-current portion	**2,277**	4,375		

23. SHAREHOLDER'S LOANS

These include a shareholder's loan of HK$10 million which is unsecured, interest-free and has no fixed terms of repayment. As described in note 2 to the financial statements, subsequent to the balance sheet date, on 10 February 2003, New Universe, the major shareholder of the Company, agreed to subscribe for 200,000,000 new shares of the Company at HK$0.05 each. The consideration of HK$10 million will be satisfied by the capitalisation of this loan amount.

The remaining shareholder's loan of HK$15 million is unsecured, interest-free and not due for repayment within the next twelve months.

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24. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and is not due for repayment within the next twelve months.

25. OTHER PAYABLES

The amount in the prior year represented payables to an independent third party for purchases of plant and machinery. The balance was unsecured, interest-free and was fully settled during the year.

26. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
Balance at beginning of year	**900**	700
Charge for the year – note 13	**–**	200
Balance at end of year	**900**	900

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

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

27. SHARE CAPITAL

Shares

	Company	
	2002	2001
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2001: 10,000,000,000) ordinary shares of HK$0.05 each (2001: HK$0.005 each)	**50,000**	50,000
Issued and fully paid:		
470,000,000 (2001: 4,700,000,000) ordinary shares of HK$0.05 each (2001: HK$0.005 each)	**23,500**	23,500

27. SHARE CAPITAL *(Continued)*

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

	Notes	Number of shares in issue	Share capital HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2001		4,000,000,000	20,000	15,673	35,673
Issue of new shares	*(a)*	700,000,000	3,500	14,700	18,200
At 31 December 2001 and 1 January 2002		4,700,000,000	23,500	30,373	53,873
Share consolidation	*(b)*	(4,230,000,000)	–	–	–
At 31 December 2002		470,000,000	23,500	30,373	53,873

Notes:

(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 a 100% equity interest in and shareholder's loans to Sky Datamann International (see note 30(a)).

(b) Pursuant to an extraordinary general meeting passed on 11 July 2002, the authorised share capital of 10,000,000,000 ordinary shares of HK$0.005 each of the Company were consolidated into 1,000,000,000 ordinary shares of HK$0.05 each by consolidating every ten issued and unissued ordinary shares of HK$0.005 each of the Company into one ordinary share of HK$0.05 each (the "Share Consolidation").

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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28. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained under the heading "Employee benefits" in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the GEM Listing Rules.

The Company operates a Pre-IPO Share Option Plan (the "Pre-IPO Plan") and a Share Option Scheme (the "Scheme") (collectively the "Option Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Option Schemes include the Company's executive directors and other employees of the Group.

(i) The Pre-IPO Plan

On 4 May 2000, options to subscribe for 40,000,000 shares of the Company at an exercise price of HK$0.50 (as adjusted for the Share Consolidation) per share were granted under the Pre-IPO Plan, with a vesting period from 4 May 2002 to 3 May 2005.

At 31 December 2002, the number of shares issuable under share options granted under the Pre-IPO Plan was 10,000,000 (as adjusted for the Share Consolidation), which represented approximately 2.13% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Pre-IPO Plan is limited to 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Pre-IPO Plan. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

During the year, 28,000,000 (as adjusted for the Share Consolidation) options outstanding under the Pre-IPO Plan lapsed upon cessation of the employment of the option holders. No shares options have been granted or exercised under the Pre-IPO Plan during the year and up to the date of approval of these financial statements. Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

28. SHARE OPTION SCHEMES *(Continued)*

(i) The Pre-IPO Plan *(Continued)*

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

Name or category of participant	Number of share options (as adjusted for the Share Consolidation): At 1 January 2002	Lapsed during the year	At 31 December 2002	Date of grant of share options*	Exercise period of share options	Exercise price of share options** (as adjusted for the Share Consolidation)	Price of the Company's shares: At grant date of options	At exercise date of options
Directors								
Tang Kwok Yuen	8,000,000	–	8,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK$0.50 per share	N/A	N/A
Chan Ngai Sang, Kenny	8,000,000	(8,000,000)	–	4 May 2000	4 May 2002 to 3 May 2005	HK$0.50 per share	N/A	N/A
Law Man Ming	8,000,000	(8,000,000)	–	4 May 2000	4 May 2002 to 3 May 2005	HK$0.50 per share	N/A	N/A
	24,000,000	(16,000,000)	8,000,000					
Other employees								
In aggregate	14,000,000	(12,000,000)	2,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK$0.50 per share	N/A	N/A
	38,000,000	(28,000,000)	10,000,000					

* *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.*

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28. SHARE OPTION SCHEMES *(Continued)*

(i) The Pre-IPO 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 options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares 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.

At the balance sheet date, the Company had 10,000,000 (as adjusted for the Share Consolidation) share options outstanding under the Pre-IPO Plan. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 10,000,000 additional ordinary shares of the Company and additional share capital of HK$500,000 and share premium of HK$4,500,000 (before issue expenses).

(ii) The Scheme

The Scheme was adopted by the shareholders of the Company on 4 May 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme became effective upon the listing of the Company's shares on 18 May 2000.

The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme. The maximum number of ordinary shares in which options can be granted under the Scheme may not exceed 10% of the issued share capital of the Company from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors. In any event such period of time may not exceed a period of three years commencing on the expiry of two years after the date of the acceptance of the share options and expiring on the last day of the three year period, or 3 May 2010, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the share options; and (ii) the closing price of the Company's ordinary shares on the date of the offer of the share options.

No option had been granted under the Scheme during the period from 4 May 2000 to 31 December 2002.

29. RESERVES

Group

	Notes	Share premium account HK$'000	Exchange fluctuation reserve HK$'000	Goodwill reserve HK$'000	Contributed surplus (note) HK$'000	Retained profits/ (accumu-lated losses) HK$'000	Total HK$'000
At 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	*27*	14,700	–	–	–	–	14,700
Impairment of goodwill	*8*	–	–	3,761	–	–	3,761
Net loss for the year		–	–	–	–	(77,620)	(77,620)
At 31 December 2001 and 1 January 2002		30,373	12	–	31,929	(42,231)	20,083
Translation differences arising on consolidation of an overseas subsidiary		–	601	–	–	–	601
Release on liquidation of subsidiaries	*30(b)*	–	(12)	–	–	–	(12)
Net loss for the year		–	–	–	–	(31,191)	(31,191)
At 31 December 2002		30,373	601	–	31,929	(73,422)	(10,519)

Company

	Note	Share premium account HK$'000	Contributed surplus (note) HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2001		15,673	58,078	861	74,612
Issue of shares	*27*	14,700	–	–	14,700
Net loss for the year		–	–	(69,956)	(69,956)
At 31 December 2001 and 1 January 2002		30,373	58,078	(69,095)	19,356
Net loss for the year		–	–	(30,753)	(30,753)
At 31 December 2002		30,373	58,078	(99,848)	(11,397)

NOTES TO FINANCIAL STATEMENTS

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29. RESERVES *(Continued)*

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 asset values of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	–	39,274
Trade receivables	–	20
Prepayments, deposits and other receivables	–	5,979
Cash and bank balances	–	713
Trade payables	–	(1,498)
Accrued liabilities and other payables	–	(7,829)
	–	36,659
Negative goodwill on acquisition	–	(11,955)
Consideration	–	24,704
Satisfied by:		
Cash paid	–	6,504
Issue of shares	–	18,200
	–	24,704

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

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

	2002	2001
	HK$'000	*HK$'000*
Cash paid	**–**	6,504
Cash and bank balances acquired	**–**	(713)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**–**	5,791

On 28 March 2001, the Group acquired a 100% interest in and shareholder's loan 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 (note 27(a)). The consideration of approximately HK$6.5 million paid by cash represented incidental acquisition costs.

Sky Datamann International and its subsidiary did not generate any turnover but contributed HK$34,876,000 to the consolidated loss after tax for the year ended 31 December 2001.

(b) Liquidation of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net assets disposed of:		
Fixed assets	**2,709**	–
Trade receivables	**347**	–
Inventories	**1,128**	–
Prepayments and other receivables	**159**	–
Cash and bank balances	**205**	–
Trade payables	**(190)**	–
Accrued liabilities	**(1,327)**	–
Deposits received	**(1,302)**	–
	1,729	–
Release of exchange fluctuation reserve – note 29	**(12)**	–
Loss on liquidation of subsidiaries	**(1,717)**	–
	–	–

NOTES TO FINANCIAL STATEMENTS

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30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Liquidation of subsidiaries *(Continued)*

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

	2002	2001
	HK$'000	*HK$'000*
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries	**205**	–

The subsidiaries liquidated during the year contributed HK$6.7 million to turnover and HK$3.4 million to the consolidated loss after tax for the year ended 31 December 2002.

(c) 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 fixed assets with a total capital value at the inception of the contracts of HK$4,830,000 (2001: HK$6,751,000). Of these, the fixed assets with aggregate inception amount of HK$2,503,000 were purchased and recorded in the year ended 31 December 2001, but the hire purchase arrangements were effected during the year.

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

(iii) During the prior year, the consideration for the acquisition of subsidiaries comprised shares issued by the Company (notes 27 and 30(a)).

31. COMMITMENTS

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

(a) Capital commitment

	2002	2001
	HK$'000	*HK$'000*
Capital commitment in respect of fixed assets contracted for	**43**	–

(b) Operating lease arrangements

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

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	**2,467**	6,340
In the second to fifth years, inclusive	**7,360**	9,169
After five years	**16,542**	18,192
	26,369	33,701

In addition to the above commitments, the Group has committed to pay a sum of approximately HK$10.7 million (2001: HK$11.4 million) to Changan Enterprises General Company ("Changan"), the PRC 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 monthly installments of approximately HK$64,000 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$5.5 million (2001: HK$5.8 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.

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

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32. CONTINGENT LIABILITIES

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

	2002	2001
	HK$'000	*HK$'000*
Corporate guarantees on liabilities of subsidiaries in respect of:		
Bank borrowings granted to and utilised	–	5,682
Obligations under finance leases	**7,019**	5,572
	7,019	11,254

In addition to the above, the Company had contingent liabilities as at 31 December 2002 in relation to a cross guarantee between the Company and a related company of which Mr. Xi Yu, an executive director of the Company, is a director and beneficial shareholder, up to a total facility amount of HK$10 million (the "Facility"). Upon default of any obligation from the related company under the Facility, the guarantee given by the Company will be satisfied through the offset against part of the Shareholder's Loans of HK$15 million, which was classified as a non-current liability as at 31 December 2002 (note 23), up to HK$10 million, pursuant to a deed of repayment dated 13 June 2002 entered into between the Company and the shareholder of the Company. On 27 February 2003, the cross guarantee was released and replaced by a corporate guarantee solely provided by the related company.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

(a) During the year, the Group paid rental expenses of HK$102,000 (2001: HK$612,000) to Mass Source Investment Limited of which Mr. Tang Kwok Yuen, a director 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 a monthly amount of HK$51,000 (2001: HK$51,000) which was determined with reference to open market rentals.

(b) During the year, the Group disposed of a motor vehicle to Mr. Chan Ngai Sang, Kenny, a director of the Company who resigned during the year, for a consideration of HK$355,000, representing the then net book value thereof.

(c) During the year, the Group purchased raw materials amounting to HK$290,125 (2001: Nil) from a related company of which Mr. Xi Yu, an executive director of the Company, is a director and beneficial shareholder. The directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the supplier.

34. POST BALANCE SHEET EVENTS

The significant events that took place subsequent to the balance sheet date are detailed in notes 2, 5, 23 and 32 to the financial statements.

35. 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 accounting treatment and 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.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2003.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
TURNOVER – continuing operations	**50,390**	102,089	111,472	122,988	84,616
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	**(31,198)**	(43,116)	13,535	24,443	12,199
Discontinued operation	**–**	(34,876)	–	–	–
	(31,198)	(77,992)	13,535	24,443	12,199
Tax – continuing operations	**–**	364	(3,413)	(4,454)	(1,524)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(31,198)**	(77,628)	10,122	19,989	10,675
Minority interests	**7**	8	2	(33)	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(31,191)**	(77,620)	10,124	19,956	10,675

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December			
	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**82,857**	121,752	194,805	113,185
TOTAL LIABILITIES	**(69,876)**	(78,146)	(95,442)	(55,810)
MINORITY INTERESTS	**–**	(23)	(31)	(33)
	12,981	43,583	99,332	57,342

Note: The summary financial information for each of the four years ended 31 December 2002 has been taken from the financial statements of the Group for the years ended 31 December 2002, 2001 and 2000. The proforma combined results of the Group for the year ended 31 December 1998 have been taken from the accountants' report included in the Company's prospectus dated 9 May 2000, and include adjustments relating to the trading results in respect of the mold and plastic business of Earnway Technology Limited and Earnway Manufacturing Limited, being included therein as further explained in the prospectus.