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滙科 數碼製造控股有限公司
(於開曼群島註冊成立之有限公司)

SmarTech

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

2002 *First Quarterly Report*

SmarTech

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

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

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

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

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

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

HIGHLIGHTS

Turnover for the three months ended 31 March 2002 amounted to HK\$17,777,000, representing a decrease of 32% over the turnover of approximately HK\$26,173,000 for the same period in last year.

Loss attributable to shareholders for the three months ended 31 March 2002 amounted to HK\$4,846,000 compared to profit attributable to shareholders of HK\$1,004,000 for the same period in last year.

FINANCIAL RESULTS

The board of directors (the "Board") of Smartech Digital Manufacturing Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2002 together with the unaudited comparative figures for the corresponding period in 2001 as follows:

| | | For the three months ended 31 March | |
|--|--------------|--|---|
| | | 2002 | 2001 |
| | <i>Notes</i> | Unaudited HK\$'000 | Unaudited HK\$'000 <i>(Restated)*</i> |
| TURNOVER | | | |
| Continuing operations | (1) | 17,777 | 26,173 |
| Cost of sales | | (14,604) | (16,330) |
| Gross profit | | 3,173 | 9,843 |
| Other revenue | | 141 | 505 |
| Distribution costs | | (617) | (879) |
| Administrative expenses | | (5,750) | (6,998) |
| Other operating expenses | | (571) | (640) |
| Loss on a discontinued operation | | (821) | — |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | | | |
| Continuing operations | | (3,624) | 1,831 |
| Discontinued operation | | (821) | — |
| Finance costs | | (4,445) | 1,831 |
| PROFIT/(LOSS) BEFORE TAX | | (4,849) | 1,222 |
| Tax | (2) | — | (194) |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | | (4,849) | 1,028 |
| Minority interests | | 3 | (24) |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (4,846) | 1,004 |
| EARNINGS/(LOSS) PER SHARE (CENTS) | | | |
| Basic | (3) | (0.10) | 0.02 |
| Diluted | | N/A | N/A |

- * *In previous period, the payment of HK\$876,000 for the use of an industrial plant was included in other operating expenses. During the current period, the Group considered it more appropriate to include the amount in the Group's cost of sales to better reflect the underlying nature of the balance. The comparative amount of cost of sales and other operating expenses have been restated to conform with the current period's presentation.*

(1) Turnover

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

(2) Tax

No provision for Hong Kong profits tax has been made for the three months ended 31 March 2002 as the Group did not generate any assessable profit arising in Hong Kong during that period. For the three months ended 31 March 2001, the provision of Hong Kong profits tax has been calculated at the rate of 16 per cent. Provision for the tax of profits of subsidiaries operating elsewhere has been calculated at the rates applicable in the respective jurisdictions for the three months ended 31 March 2002 and for the three months ended 31 March 2001 (the "Relevant Periods"), based on existing tax law, interpretations and practices in respect thereof.

(3) Earnings/(Loss) per share

The calculation of basic loss (2001: earnings) per share of the Company (the "Share(s)") for the three months ended 31 March 2002 was based on the Group's loss attributable to shareholders for the three months ended 31 March 2002 of HK\$4,846,000 (2001: profit HK\$1,004,000) and the weighted average of 4,700,000,000 (2001: 4,030,769,231) Shares had been in issue during that period. Diluted loss per Share of the three months ended 31 March 2002 has not been presented as to the effect of any dilution is anti-dilutive. Diluted earnings per Share for the three months ended 31 March 2001 had not been presented as no diluting events existed during that period.

(4) Dividend

The directors do not recommend the payment of dividend for the three months ended 31 March 2002 (2001: Nil).

(5) Reserves

There were no movements in reserves other than profit and loss for the Relevant Periods, except on 28 March 2001, 700,000,000 shares of the Company were allotted and issued at HK\$0.026 each as payment of consideration for acquisition of the data centre business. The acquisition resulted in an increase of HK\$14,700,000 in the share premium account and a negative goodwill of HK\$11,955,000. Following the cessation of the data centre business in 2001, the above mentioned negative goodwill was immediately written back.

BUSINESS REVIEW

Mold business and plastic business

For the three months ended 31 March 2002, turnover decreased 32% to HK\$17,777,000, this is the result of dropping sales order from mold business and plastic business under the negative market sentiment. Gross profit margin of the Group kept declining to 18% was mainly due to substantial drop in turnover in the first three months of 2002, where certain direct overheads of the Group maintained in the same level since the Group has to bear certain fixed overheads such as direct labour cost, factory rental and depreciation expenses.

During the period, the Group has some achievement on cost control by reducing the administrative cost effectively from HK\$6,998,000 to HK\$5,750,000, representing 18% reduction compared with the first quarter of 2001. The Group will continue to improve the efficiency by further streamline the operating cost in 2002.

Data centre

The data centre business had been abandoned by the Group last year. Apart from the rental and management expense as well as some legal and professional fees provided for the three months, the Group expects that no further losses to be incurred from this segment.

Professional Injection Mold system

The Professional Injection Mold System programme jointly developed by the Department of Mechanical Engineering of the University of Hong Kong and the Group with the support of the Hong Kong Innovation and Technology Fund is on schedule. Several exhibitions and seminars have been arranged to introduce the system to industrialists in Hong Kong and China in 2001. The trial usage of the first version is expected to be launched in 2002.

PROSPECTS

In view of slow recovery of the economic condition in our major markets, mainly Japan, Hong Kong, United States and Canada, the Group will diversify its markets by putting more effort in developing the China market since sales orders from China manufacturers has been continued to increase gradually. Meanwhile, the Group will continue to build on core competencies by focusing on the core business of mold and plastic manufacturing, raise its profit margin by developing higher margin products such as double injection products as well as to control expenses so as to maintain its competitiveness.

Looking forward, the management will ensure that every effort is made to maintain its leading status in the core business and re-establish customers' confidence to bring a better prospects to the Group.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2002, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

| Name of directors | No. of Ordinary Shares held (Corporate Interest) | No. of Shares entitled under the share option scheme (note iv) |
|---------------------------------------|--|---|
| Mr. Law Man Ming ("Mr Law") | 1,956,000,000 (note i) | 80,000,000 |
| Mr. Tang Kwok Yuen ("Mr Tang") | — (note ii) | 80,000,000 |
| Mr. Chan Ngai Sang, Kenny ("Mr Chan") | 535,500,000 (note iii) | 80,000,000 |

Notes:

- (i) Mr. Law is the beneficial owner of 42,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 84 per cent. of the issued share capital of Diamonds and Pearls Limited, which in turn holds 1,956,000,000 Shares representing about 41.61 per cent. of the issued share capital of the Company.
- (ii) Mr. Tang is the beneficial owner of 8,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 16 per cent. of the issued share capital of Diamonds and Pearls Limited.
- (iii) Mr. Chan is the beneficial owner of 13,445 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 26.9 per cent. of the issued share capital of Joyful Way Holdings Limited, which in turn holds 535,500,000 Shares representing about 11.39 per cent. of the issued share capital of the Company.
- (iv) The share options were granted under a pre-IPO share option plan, which was approved by the written resolution of all shareholders of the Company dated 4 May 2000. The share options entitle Mr. Law, Mr. Tang and Mr. Chan each to subscribe for 80,000,000 Shares of HK\$0.005 per Share in the Company at HK\$0.05 each in various stages from 4 May 2002 to 3 May 2005.

Save as disclosed above, at 31 March 2002, none of the directors or any of their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Other than the share options mentioned in "Directors' Interests in Shares" above, at no time during the three months ended 31 March 2002 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Company's directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

According to the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company as at 31 March 2002:

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

Notes:

- (i) Diamonds and Pearls Limited is beneficially owned as to 84 per cent. by Mr. Law and as to 16 per cent. by Mr. Tang. Both of them are executive directors of the Company.
- (ii) Joyful Way Holdings Limited is beneficially owned as to approximately 73.1 per cent. by Mr. Yaw and as to approximately 26.9 per cent. by Mr. Chan (an executive director of the Company).

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2002.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the three months ended 31 March 2002, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with the Company or might compete with the business of the Group.

SPONSOR'S INTERESTS

As at 31 March 2002, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial Capital") had confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any members of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group.

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

AUDIT COMMITTEE

The Group has established an audit committee in May 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors, Dr. Chan Yan Cheong and Mr. Lee Kwan Hung, Eddie. Mr. Lee Kwan Hung, Eddie resigned on 26 March 2002. Subsequent to Mr. Lee's resignation, Mr. Yuen Kim Hung, Michael was appointed on 24 April 2002 as an independent non-executive director and a member of audit committee.

CONTINUING DISCLOSURE REQUIREMENTS PURSUANT TO THE RULE 17.23 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GEM

As disclosed in the announcement of the Company dated 11 March 2002, the banking facilities of HK\$8 million granted to the Group have been withheld by bankers and accounts balances of the Group held with certain banks have been frozen. As at 31 March 2002, bank balances of an aggregate amount of approximately HK\$542,000 was frozen. Subsequent to 31 March 2002, certain credit facility/lease agreements entered into by the Group were breached and/or terminated due to the Group's non-payment of the overdue amounts under these agreements aggregating approximately HK\$5,616,000. The terminated finance lease obligations included leasing of machinery, motor vehicles and computer and equipment with net book value in aggregate of approximately HK\$21,662,000 as at 31 March 2002. Since most of the fixed assets under finance lease are related to production, the Board considers that any repossession action taken by the lessors resulted from the default in payments of the abovementioned finance lease obligations will bring material adverse effect to the operation of the Group. The Group is currently under negotiations with the lessors and the bankers to reschedule and/or restructure the repayment arrangements.

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

Hong Kong, 13 May 2002