

SmarTech 滙 科

Smarteck Digital Manufacturing Holdings Limited

滙 科 數 碼 製 造 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

2000 Half-year Result Announcement

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This announcement, for which the directors of SMARTECH DIGITAL MANUFACTURING HOLDINGS LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to SMARTECH DIGITAL MANUFACTURING HOLDINGS LIMITED. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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HIGHLIGHTS

The Group has achieved a net profit attributable to shareholders for the six-month period ended 30th June 2000 of HK\$7,004,000, representing a basic earnings per share of 4.32 cents.

BUSINESS REVIEW

During the period ended 30 June 2000, the Group has continued to strengthen its capability in product design and development as well as diversify into

advanced tooling and molding businesses. However, the Group's result for the period under review was affected by the fluctuation in price for plastic material and increase in marketing expenses and increase in staff cost as a result of more engineers and marketing staff were employed to cope with the future expansion of the Group. The Group's turnover for this period under review was approximately HK\$49,465,000 for the six months ended 30th June 2000 and HK\$27,007,000 for the three months ended 30th June 2000, net profit attributable to shareholders was HK\$7,004,000 for the six months ended 30th June 2000 and HK\$4,952,000 for the three months ended 30th June 2000 while basic earnings per share was 4.32 cents for the six months ended 30th June 2000 and 2.84 cents for the three months ended 30th June 2000. The cash on hand as at 30th June 2000 was HK\$34,923,000.

In order to streamline the production line and meet the ever-growing business, approximately HK\$5 million of listing proceeds has been used to purchase accessories and latest equipment. In the meantime, due to the rising demand and stringent requirement for sophisticated consumer goods, the Group also believes that placing significant focus on product design is a key to success in molding industry nowadays. Therefore, the Group makes every endeavor to develop and apply different design software extensively.

With its sound foundation of software application and experienced Design and Development Team, the Group has started the cooperation with the Department of Mechanical Engineering of the University of Hong Kong ("HKU") to develop a "Professional Injection Mold System" under the support of the Innovation and Technology Fund in May 2000. Since the mold design software is tailor-made to Asian users, the Group believes that the system can achieve an outstanding performance. The Group has conducted regular meetings with researchers from HKU during the period under review and it paves the way for the Group's software development business in the coming future.

To further expand the software application and provide comprehensive "total solution service" to the customers, the Group makes use of its own web server to offer a platform for its customers and itself to transmit and obtain information, exchange ideas and communicate with its own customers. The Group's web server is now widely used by its existing customers and many potential customers were also expressed their interest in applying the web server communications solutions.

With its excellent communication solution, the Group also strives to expand its distribution network with its vigorous marketing programmes for the period

under review. In addition with the favorable impact from listing status, the image of the Group was enhanced, and the Group has started business relationship with two international reputable customers and customers in Australia and New Zealand.

RESULTS

The board of directors (the “Board”) of Smartech Digital Manufacturing Holdings Limited is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30th June 2000 together with the comparative unaudited combined figures for the corresponding periods in 1999 as follows:

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2000 Unaudited <i>HK\$'000</i>	1999 Unaudited <i>HK\$'000</i>	2000 Unaudited <i>HK\$'000</i>	1999 Unaudited <i>HK\$'000</i>
Turnover	(2)	27,007	30,508	49,465	55,989
Cost of sales		<u>(11,866)</u>	<u>(15,734)</u>	<u>(24,001)</u>	<u>(28,985)</u>
Gross profit		15,141	14,774	25,464	27,004
Other revenue		254	367	533	757
Distribution costs		(385)	(554)	(574)	(1,140)
Administrative expenses		(5,997)	(4,836)	(11,920)	(9,960)
Other operating expenses		<u>(2,192)</u>	<u>(1,604)</u>	<u>(4,072)</u>	<u>(3,303)</u>
Profit from operating activities		6,821	8,147	9,431	13,358
Finance costs		<u>(873)</u>	<u>(707)</u>	<u>(983)</u>	<u>(1,455)</u>
Profit before tax		5,948	7,440	8,448	11,903
Tax	(3)	<u>(959)</u>	<u>(1,431)</u>	<u>(1,356)</u>	<u>(2,290)</u>
Profit before minority interests		4,989	6,009	7,092	9,613

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2000	1999	2000	1999
		Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
Profit attributable to minority interests		<u>(37)</u>	<u>(5)</u>	<u>(88)</u>	<u>(7)</u>
Profit attributable to shareholders		<u>4,952</u>	<u>6,004</u>	<u>7,004</u>	<u>9,606</u>
Basic earnings per share	(4)	<u>2.84 cents</u>	<u>4.00 cents</u>	<u>4.32 cents</u>	<u>6.40 cents</u>
Diluted earnings per share	(4)	<u>2.69 cents</u>	<u>N/A</u>	<u>4.20 cents</u>	<u>N/A</u>

Notes:

(1) Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12th November 1999 under the Companies Law of the Cayman Islands. The Company's shares were listed on GEM of the Stock Exchange on 18th May 2000. The reorganization of the Group ("Group Reorganisation") prior to the listing on GEM was completed on 4th May 2000. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated results of the Group for the six months and three months ended 30th June 2000 have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The combined results for the six months and three months ended 30th June 1999 have been prepared on a basis as if the current group structure had been in existence since 1st January 1999 or since their respective dates of incorporation where there is a shorter period.

All intra-group transactions have been properly eliminated for the current reporting period and for the last corresponding period.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

(2) Turnover

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

(3) Tax

Provision for Hong Kong profits tax has been calculated at the rate of 16 per cent for the six months and three months ended 30th June 2000 and last corresponding periods (“Relevant Period”). Provision for the tax of profits of subsidiaries operating elsewhere has been calculated at the rates applicable in the respective jurisdictions during the Relevant Period, based on existing tax law, interpretations and practices in respect thereof.

In accordance with the applicable enterprise income tax law of the PRC, the subsidiary established in the PRC is exempt from income tax for the first two profitable years of operation and is entitled to a 50 per cent, relief on the income tax that would otherwise be charged for the succeeding three years. The assessable income of the subsidiary for such income tax purpose and the first profitable year of operation were determined based on its statutory financial statements prepared in accordance with accounting principles generally accepted in the PRC. For the six months and three months ended 30th June 2000 and last corresponding periods, no provision for PRC income tax has been made in the accounts, as the PRC subsidiary had no assessable income for the six months and three months ended 30th June 2000 and last corresponding periods.

There was no significant unprovided deferred tax for the Relevant Period.

(4) Earnings per Share

The calculation of basic earnings per share for the six months and the three months ended 30th June 2000 was based on the Group’s profit for the six months ended 30th June 2000 of HK\$7,004,000 and for the three months ended 30th June 2000 of HK\$4,952,000 and the weighted average of 162,087,912 and 174,175,824 shares had been in issue during the respective periods. The earnings per share in respect of the three months and the six months ended 30th June 1999 was based on the Group’s profit for the six months ended 30th June 1999 of HK\$9,606,000 and for the three months ended 30th June 1999 of HK\$6,004,000 and on 150,000,000 shares in issue on the assumption that the Group Reorganisation of the Company had been effective during the six months and three months ended 30th June 1999.

The diluted earnings per share for the six months and the three months ended 30th June 2000 was based on the Group’s profit for the respective periods and the diluted weighted average of 166,923,077 and 183,846,154 shares (which incorporated the effect of 20,000,000 potential ordinary shares under Pre-IPO Share Option Plan) had been in issue during the six months ended 30th June 2000 and for the three months ended 30th June 2000 respectively. No diluted earnings per share in respect of the three months and the six months ended 30th June 1999 is calculated as there was no diluted share during the last corresponding period.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2000. For the six months ended 30th June 1999,

a dividend of HK\$7,023,000 was distributed by Earnway Manufacturing Limited (“EML”), a related company of the Group which is beneficiary owned by Mr. Law Man Ming and Mr. Tang Kwok Yuen (both are the management shareholders of the Company), to its then shareholders. The assets and liabilities and the related plastic business of EML had been transferred to the Group as part of the Group’s restructuring exercise, details of which had been disclosed in the Prospectus dated 9th May 2000. The dividend rates are not presented as comparative figures as such information is not meaningful for the purpose of this report.

PROSPECTS

In respect of the operation of plastic injection products, the Group is in the process of upgrading the existing equipment to improve its operational efficiency. Meanwhile, the Group is dedicated to strengthen its marketing team in both overseas and the mainland China. The Group has established business relationship with two international reputable customers. In addition, a sales representative was sent to station in Australia and New Zealand. As a result, the Group started to receive orders from customers in Australia and New Zealand.

Other than the sales office in Canada, a sales office in Shanghai is expected to be established by end of year 2000 aiming at further strengthening the Group’s geographical presence and after-sales technical support. Representative of the Group will also be sent to the United States to further study the suitable location for a new sales office and to contact potential customers.

To cope with the continuous growth of the businesses and the great opportunities emerge as a result of China joining WTO, the Group dedicates to further increase its productivity and product quality. The Group has started a study on magnesium casting molds and has initial contact with some potential partners in their joint development. The Group expects some further development to be achieved later this year.

The Group is under discussion with a reputable ISO consulting company to jointly develop a software catering for the implementation of new ISO quality assurance requirements which will be introduced by the end of year 2000. Further details will be announced once the discussion is being finalised, which is expected shortly.

Looking forward, the Group will ensure that every effort is made to maintain its leading status and competitiveness in the manufacturing of mold products as well as to grasp every opportunity to explore new high growth potential businesses and expand its customer base.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective of the first half 2000 as disclosed in the Prospectus dated 9th May 2000

Actual business progress up of year to the first half of year 2000

Plastic injection molds

Business plans

To purchases accessories to streamline the production line

The Group has completed the study of the plan to streamline the production line of plastic injection molds and has placed order to purchase some high precision machines. These machines will gradually be installed from the third quarter 2000 and is expected to increase the degree of precision and production capacity.

HK\$3 million will be applied

HK\$3 million has been spent on the purchase of machine to enhance the productivity.

Plastic injection products

Business plans

To upgrade the existing equipment to improve efficiency

The study of the improvement plan for plastic injection products division is near the completion stage and quotations for different types of plastic injection machine were being received from suppliers. The improvement plan is focusing on the increase in efficiency and improvements in the finishing and printing processes.

Bottle blow molds

Business plans

To purchases machinery and equipment for production

The study of the plan to expand the bottle blow molds is near completion and the Group is sourcing for suitable machines to be purchased.

To expand the existing department for production

The plan of expansion is under review.

HK\$4 million will be applied

HK\$2 million has been spent as deposit for purchase of machine for future use.

Design and development

Business plans

To upgrade application softwares

Suitable software and hardware were identified, and some already purchases, by the Group in accordance with the Group's intention to develop high speed machinery.

The progress of the development of mold design software with the University of Hong Kong is satisfactory and both the University and the Company are working toward an earlier time table to release the first draft version of the software.

Patent for a Digital Video compact Disc packaging designed by the Group is under application.

Others

Business plans

To use as general working capital

HK\$4 million will be applied

HK\$4 million has been allocated to working capital

The net proceeds of the issue of 50,000,000 new shares issued by the Company by way of placing at HK\$1.00 per share on 16th May 2000, which was subject to the terms specified in the Prospectus dated 9th May 2000 ("New Issue"), after deducting related expenses, were about HK\$39,000,000. The net proceeds incurred during the period from the listing date (18th May 2000) to 30th June 2000 was about HK\$9,000,000, and the remaining HK\$30,000,000 has been placed in banks in Hong Kong as time deposit.

Barring unforeseeable circumstances and based on the use of proceeds up to 30th June 2000, the Board of Directors believes that the Company has sufficient funds to satisfy the future business objectives as set out in the Prospectus dated 9th May 2000.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2000, the particulars of the directors' interests in the securities of the Company as recorded in the register maintained by the Company under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Type of interest (note i)	No. of Ordinary Share held (approximately)	No. of Share entitled under the share option scheme held as personal interests (note ii)
Mr. Law Man Ming	Corporate	82,152,000	4,000,000
Mr. Tang Kwok Yuen	Corporate	15,648,000	4,000,000
Mr. Chan Ngai Sang, Kenny	Corporate	7,200,000	4,000,000
Mr. Yaw Chee Weng	Corporate	19,575,000	—
Mr. Shiro Murai	Corporate	525,000	—

Notes:

- (i) Mr. Law Man Ming is the beneficial owner of 42,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 84 per cent. of the issued share capital of Diamonds and Pearls Limited, which in turn holds about 48.9 per cent. of the issued share capital of the Company.

Mr. Tang Kwok Yuen is the beneficial owner of 8,000 shares of US\$1.00 each in Diamonds and Pearls Limited, representing 16 per cent. of the issued share capital of Diamonds and Pearls Limited, which in turn holds about 48.9 per cent. of the issued share capital of the Company.

Mr. Chan Ngai Sang, Kenny is the beneficial owner of 13,445 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 26.9 per cent. of the issued share capital of Joyful Way Holdings Limited, which in turn holds about 13.39 per cent. of the issued share capital of the Company.

Mr. Yaw Chee Weng is the beneficial owner of 36,555 shares of US\$1.00 each in Joyful Way Holdings Limited, representing 73.1 per cent. of the issued share capital of Joyful Way Holdings Limited, which in turn holds about 13.39 per cent. of the issued share capital of the Company.

Mr. Shiro Murai is the beneficial owner of 450,000 shares in Siix Corporation, a company listed on the stock exchange in Osaka, Japan. Siix Corporation in turn holds about 3.75 per cent. of the issued share capital of the Company.

- (ii) The share options were granted under a pre-IPO share option plan, which was approved by the written resolution of all shareholders of the Company dated 4th May 2000. The share options entitle Mr. Law Man Ming, Mr. Tang Kwok Yuen and Mr. Chan Ngai Sang, Kenny each to subscribe for 4,000,000 shares of HK\$0.10 per share in the Company at HK\$1.00 each in various stages from 4th May 2002 to 3rd May 2005.

Save as disclosed above, at 30th June 2000, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

OUTSTANDING SHARE OPTIONS

On 30th June 2000, the Company adopted two share option schemes, namely the Pre-IPO Share Option Plan and the Share Option Scheme.

Pre-IPO Share Option Plan

On 4th May 2000, options to subscribe for an aggregate of 20,000,000 Shares, representing 10 per cent. of the issued share capital of the Company immediately follow the New Issue, at an exercise price of HK\$1.00 per share have conditionally been granted by the Company. The exercise period of these options is from 4th May 2002 to 3rd May 2005. Such options are granted to all executive directors of the Company and 5 employees of the Group. Details of such grant to the directors of the Company are set out in the section headed "Directors' Interest in Securities". Particulars of the outstanding options granted to the 5 employees of the Group are set out below:

Name of grantee	Position	Number of options Granted
Mr. Lo Wai Cheong	Director of a subsidiary of the Group	4,000,000
Ms. Ma Miu Ting	Deputy General Manager of the Group	1,000,000
Ms. Leung Yuet Fung	Financial Controller of the Group	1,000,000
Mr. Chaung Kwai Wah	Vice-President of Sales and Marketing of the Group	1,000,000
Mr. Lo Man Yiu	Production Director of a subsidiary of the Group	1,000,000

Since the date of grant of the options, no change in the number of options, exercise period and exercise price is made. In addition, no option pursuant to the Pre-IPO Share Option Plan had been exercised, cancelled or lapsed during the six months ended 30th June 2000.

During the six months ended 30th June 2000, no options other than the options described above has been granted by the Company or any of its subsidiaries.

Share Option Scheme

The Company also has a Share Option Scheme conditionally adopted by a written resolution of all shareholders of the Company dated 4th May 2000. Under such scheme, full-time employees of any member of the Group, including any executive directors, can take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. The maximum number of shares which can be granted under the Pre-IPO Share Option Plan and the Share Option Scheme must not exceed 30 per cent. of the issued share capital of the Company from time to time. No option had been granted under the Share Option Scheme during the period from 4th May 2000 to 30th June 2000.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Other than the share option schemes as described in the above, at no time during the period was the Company grant any right or option to subscribe for equity or debt securities of the Company to any director of the Company or to the spouse or children under 18 years of age of any such director.

SUBSTANTIAL SHAREHOLDERS

According to the register of shareholders required to be kept of the Company maintained under Section 16(1) of the SDI Ordinance showed that, the only person interested in 10 per cent. or more of the issued share capital of the Company as at 30th June 2000 were as follows:

Name	Number of shares	Percentage of holding
Diamonds and Pearls Limited (<i>note i</i>)	97,800,000	48.9 per cent.
Mr. Law Man Ming (<i>note i</i>)	82,152,000	41.1 per cent.
Joyful Way Holdings Limited (<i>note ii</i>)	26,775,000	13.4 per cent.

Notes

- (i) Diamonds and Pearls Limited is beneficially owned as to 84 per cent. by Mr. Law Man Ming and as to 16 per cent. by Mr. Tang Kwok Yuen. Both of them are executive directors of the Company.
- (ii) Joyful Way Holdings Limited is beneficially owned as to approximately 73.1 per cent, by Highway Enterprises Limited which is wholly owned by Mr. Yaw Chee Weng (a non-executive director of the Company) and as to approximately 26.9 per cent. by Top Rank Enterprises Limited which is wholly owned by Mr. Chan Ngai Sang, Kenny (an executive director of the Company).

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 30th June 2000, the following persons were the management shareholders of the Company and were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who are able, as a practical matter, to direct or influence the management of the Company:

Name	Percentage of holding
Diamonds and Pearls Limited	48.9 per cent.
Joyful Way Holdings Limited	13.4 per cent.
Highway Enterprises Limited	9.8 per cent.
Top Rank Enterprises Limited	3.6 per cent.
Mr. Law Man Ming	41.1 per cent.
Mr. Tang Kwok Yuen	7.8 per cent.
Mr. Yaw Chee Weng	9.8 per cent.
Mr. Chan Ngai Sang, Kenny	3.6 per cent.
Mr. Shiro Murai	0.3 per cent.

COMPETING INTEREST

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

SPONSOR'S INTERESTS

As at 30th June 2000, the Company's sponsor, Asia Financial Capital Limited ("Asia Financial Capital") has confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any members of the

Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group.

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

YEAR 2000 COMPLIANCE

The Group has successfully made the transition to the Year 2000 with all its systems functioning normally. The Directors are confident that the Group's computer systems are Year 2000 compliant.

AUDIT COMMITTEE

The Group has established an audit committee in May 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors, Dr. Chan Yan Cheong and Dr. Chan Nai Keong.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2000.

By order of the Board
Law Man Ming
Chairman

Hong Kong, 11th August 2000

This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting.