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SmarTech

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Smarteck Digital Manufacturing Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

CESSATION OF BUSINESS OF A SUBSIDIARY

The Board has resolved to cease the operation of Sky Datamann, an indirect wholly-owned subsidiary of the Company, which carries on the business of internet data centre services provider in Hong Kong.

The board of directors (the “Board”) of Smarteck Digital Manufacturing Holdings Limited (the “Company”) has made a decision to cease the operation of Sky Datamann (Hong Kong) Limited (“Sky Datamann”), an indirect wholly-owned subsidiary of the Company which carries on the business of internet data services provider in Hong Kong.

Sky Datamann is a limited company incorporated in Hong Kong on 10th May 2000. It is wholly and directly owned by Sky Datamann International Limited (“Sky Datamann International”). By a sale and purchase agreement dated 12th January 2001 (the “Agreement”) between (i) Sky Citi-Link ATNT (Holdings) Limited (the “Vendor”), (ii) Smarteck I-Network Limited (the “Purchaser”), (iii) Asia Tele-Net and Technology Corporation Limited (the “Vendor’s Guarantor”) and (iv) the Company, the Vendor sold all the shares in Sky Datamann International to the Purchaser (the “Acquisition”). The Vendor is a wholly-owned subsidiary of the Vendor’s Guarantor and the Purchaser is a wholly-owned subsidiary of the Company. The Vendor and the Vendor’s Guarantor were independent third parties at the time of entering into the Agreement. The Acquisition was completed on 28th March 2001 and constituted a major transaction of the Company.

The sole activity of Sky Datamann is the operation of a data centre situated at Unit A & B, 4/F, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong (the “Data Centre”). Sky Datamann provides rack space (storage compartment for storage of servers or other computer equipments) and related facility management and server co-location services in the Data Centre to customers for storage and transmittal of digital

data and information. The Data Centre came into operation in around December 2000. As highly sensitive computer equipments are installed at the Data Centre, there are stringent requirements of building services, in particular the air-conditioning system and the electricity supply. Furthermore, a stable, uninterrupted and continuous electricity supply must be ensured for both day-to-day as well as emergency operation of the air-conditioning system and the computer equipments so as to ensure that no digital data or information will be lost in case of electricity blackout or disruption. Therefore, a back-up diesel generator is important and essential to the continual operation of the business of the Data Centre. Subsequent to the Acquisition, the then newly appointed Chief Executive Officer of Sky Datamann reported to the directors of Sky Datamann that he noticed that the back-up diesel generator for Data Centre was installed on the roof of the building (the “Building”) where Sky Datamann is situated. The directors of Sky Datamann took the view that Sky Datamann should review whether it was lawful and structurally safe to install the generator on the roof of the Building. A practising architect who is also an Authorised Person (as defined under Section 2 of the Buildings Ordinance, Chapter 123 of The Laws of Hong Kong) (the “Architect”) was appointed to give opinion on this matter. Sky Datamann was advised by the Architect that no consent or approval has ever been given by the Building Authority for the installation works of the back-up diesel generator exclusively for the Data Centre (the “Generator Installation”). Therefore, the Generator Installation are unauthorized building works which are subject to be ordered for removal by the Building Authority. Further, the Architect also advised that no retrospective approval would be entertained by the Building Authority and the Generator Installation should be removed before making approval submission for the re-installation works of the back-up diesel generator.

In order to rectify the said unauthorized building works and carry on business of the Data Centre under the current situation, a new data centre will have to be set up in another premises which would accommodate the back-up diesel generator. As substantial investment costs of not less than HK\$25 million are expected to be incurred to set up a new data centre and relocate all the equipments. The Board expects that there may be material impact to the existing operation of the Company. Due to the above reason, the Board (including independent non-executive directors) considers that the cessation of the business of Sky Datamann will minimize the loss of the Company and its subsidiaries and be in the best interests to the shareholders of the Company. The operating loss incurred by Sky Datamann up to 30th September 2001 since Acquisition was in the amount of HK\$17,380,000 as stated in the Third Quarterly Report 2001 of the Company.

Neither the Purchaser nor the Company has any knowledge whatsoever of the Generator Installation being unauthorized building works at any time prior to or at the time of the Acquisition. The Company is now seeking advices from its legal advisors on this matter. Further announcement will be made in due course.

Further to the announcements dated 23rd May 2001, 18th July 2001, 23rd July 2001 and 21st August 2001 in respect of the High Court Companies Winding-Up Proceedings No. 487 of 2001 (the “Petition”) against Sky Datamann, Sky Datamann was advised by its legal advisors that the alleged debt mentioned in the Petition is bona fide disputed on substantial grounds, and/or the Petition is scandalous, frivolous or vexatious and/or the Petition is an abuse of process of Court. Therefore, Sky Datamann has taken out a Summons to strike out and/or dismiss the Petition. The Summons will be heard on 8th January 2002 and further announcement in relation to the hearing will be made in due course.

As the molding and tooling activities has all along been the principal business of the Group (the Company and its subsidiaries), the Board does not anticipate the cessation of business of Sky Datamann will have any material impact to the operation of the Group.

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

Hong Kong, 2nd January 2002

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) 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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