INTERNATIONAL SEMI-TECH MICROELECTRONICS INC.

1991 ANNUAL REPORT

CONTENTS

To Our Shareholders

The past year was another year of change for your company. The European distribution organization of Singer was returned to the Singer fold, and Singer itself began to show the fruits of our reorganization and revitalization efforts over the last two years. In Canada, a unique opportunity presented itself to transform STM Systems Corp. into a major international information services company.

As in the past, these changes have expanded the scope and improved the future prospects for your company.

Semi-Tech now commands a unique world-wide retail distribution network. Our future efforts will focus on Singer, which celebrates its 140th anniversary in 1991. We intend to expand the Singer product line by introducing new household products and grow the retail network through acquisitions and new store openings.

SINGER

In the past year, Semi-Tech completed its announced acquisition of Singer Europe from European Home Products PLC. The Singer Europe operations were reorganized and integrated into the rest of Singer effective last September. A revitalized field management led Singer to a remarkable financial turnaround. Our continuing emphasis on retail sales was a significant impetus to this recovery. Singer is once again in retail in Europe and controlling its product revenue growth.

While we expanded our retail distribution network, we also continued to broaden our Singer product offerings. In our traditional sewing business, Singer introduced nine new models of consumer sewing machines last year, including the top-of-the-line Quantum XL computerized machines. Our sales growth in the high-end electronic machine segment has been dramatic. We intend to continue new product introductions in this segment and aggressively increase our market share. Following the overwhelming success of the Singer steam presses, introduced in late 1989, we recently launched a complete line of small kitchen appliances (blenders, mixers, coffee makers, toasters, waffle and sandwich grills) and consumer audio/video products (portable tape players, CD players, video recorders, TV's). Most remarkably, these new products will appear in North America, one of the few remaining markets of the world in which Singer is still associated primarily with sewing machines rather than products for the home. The entry into consumer electronics products would not have been possible without our investment in Tomei in May 1990. Tomei is Hong Kong's leading manufacturer of quality consumer electronic products. Recently, we announced the signing of a definitive agreement for a similar strategic investment in Emerson Radio Corp. Emerson is a major U.S. designer and distributor of electronic products, with Far East sourcing capabilities of significant importance to Singer as we expand our product line.

1990 was a troubled year for Canada, which suffered a serious recession.

The U.S. was also hard hit. Despite this, Singer sewing machines continued to register strong revenue and earnings growth in North America. Most of this growth was at the expense of our competitors, as Singer increased its market share in virtually every segment. This was particularly true for the high-end electronic machines. Despite the depressed U.S. retail market last year, our Consumers Distributing operation managed to show a slight profit for the year. This was only possible because of measures taken early in 1990 to reduce corporate overhead and improve overall efficiency. Improved product sourcing in the Far East, one of the synergistic benefits of Singer, also helped us preserve margins in the face of many of our competitors who did not fare so well.

As North America struggled through 1990, other regions boomed. Singer posted record sales in Thailand, Portugal, Mexico and Turkey. These regions continue to represent major growth markets for retail distribution. The strong financial performance of last year demonstrates the importance of a globally diverse retail network. As certain regions undergo recession, other regions are experiencing economic booms.

Overall, we expect this to continue to provide Singer with steady growth in future years as more products with higher margins are introduced. Singer is the only company to operate a retail consumer products network on a truly global basis.

Looking ahead, we have announced our intention to proceed with an initial public offering of Singer shares. Merrill Lynch will act as underwriter for this issue which, like Singer, is international in scope. The proceeds of this issue will retire the debt incurred to acquire Singer and provide a stronger capital base to enable Singer to realize its full potential as a global retailer.

STM Systems Corp. has completed one of its most difficult years in recent times. Foreseeing difficult economic times ahead, we began cutbacks early in the year in response to our customers' reduced demands for our services. While traditional computer processing revenues remained steady, our discretionary services (data entry, printing) showed significant revenue declines. Driven by our customers' desires to reduce their data communications costs, our ValuNet product experienced significant growth. In July, we completed our acquisition of Manitoba Data Services which strengthened our market presence in the West and made significant contribution to our revenue growth. Overall, STM Systems Corp. continued its strong operating results, particularly in light of the recession which hit Ontario very hard, where its main customer base is located.

While the cutbacks and consolidation of operations had an adverse effect on financial performance last year, they were necessary to improve long-term profitability. Indeed, STM Systems Corp. showed improved financial performance in last year's fourth quarter, which has continued with an even stronger first quarter this year. This is in large part due to the strong management team now in place at STM Systems Corp. which worked long and hard against the declining economy and intensive competition, particularly from the U.S.-based competitors.

During 1990, we had many discussions with Westbridge Computer Corporation concerning a merger with STM Systems Corp. Both companies offer similar products and services, but in different geographic regions. A merger made operational sense, but for the combined companies to compete effectively, we both felt the need for a strong, strategic investor to respond to the U.S.-based competition and allow the new company to grow internationally. Late in 1990, IBM Canada appeared as such a partner. I believe the partnership will result in a strong Canadian competitor in this growing market. In addition, having IBM Canada as a shareholder and marketing partner will allow the new company to compete effectively in the commercial marketplace, where "outsourcing" is becoming more and more common.

While the Westbridge transaction requires that we relinquish control of STM Systems Corp., it is necessary for it to achieve its full potential. We will continue to use their resources to help us modernize the Singer operations around the world. The Westbridge transaction also required that we exit certain businesses. This resulted in charges to earnings last year to fully provide for these costs. While these charges resulted in STM Systems Corp. reporting a loss for the year, these costs will not burden Westbridge in the future.

This loss should also be viewed in light of the $29 million gain on the sale which will not be reported until the transaction closes, anticipated to be in June of this year. As part of the Westbridge transaction, we kept the microcomputer distribution operation (Apricot Canada) and the real estate company which owns the Ottawa and Mississauga data centres and the Markham corporate headquarters.

THE FUTURE

Your company is now clearly a holding company. We will continue to operate Apricot Canada and manage our Canadian real estate holdings, but Singer will be our main earnings contributor. We have committed to dispose of our shareholdings in Westbridge within two years. Our emphasis going forward will be on retail distribution of consumer products through Singer.

This year marks another milestone for Singer, celebrating its 140th year. In addition to special festivities to mark this occasion around the world, we have committed to a special advertising campaign to promote public awareness of the Singer name.

In closing, I would again like to express my sincere appreciation to our shareholders, employees and financial supporters around the world. Your support throughout these eventful years of business expansion is greatly appreciated.

JAMES H. TING
President & Chief Executive Officer
June 14, 1991

FINANCIAL REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

GENERAL

International Semi-Tech Microelectronics Inc. ("ISTM or the "Company") is a Canadian based multinational company with interests in the retailing and distribution of consumer durables and sewing related products principally through the Company's investment in Semi-Tech (Global) Limited ("STMG"), (Formerly named Semi-Tech Microelectronics (Far East) Limited). During 1991, the Company's investment in STMG was marginally reduced to approximately 39% from 41% in the previous year as a result of STMG's issues of equity to other investors.

STMG has three principal subsidiaries. SSMC Inc. ("SSMC"), representing approximately US$614 million or 56% of STMG's consolidated revenues, operates in over 100 countries and derives its revenues from the sale of sewing machines and consumer durables. Laurelton Company Ltd. ("Singer Europe"), acquired from ISTM effective September 1, 1990, contributed approximately US$124 million or 11% of STMG's consolidated revenues, reflecting only 4 months of Singer Europe operations. Singer Europe operates in most of the major European and Scandinavian countries and derives its revenues in a similar manner to SSMC. Consumers Distributing Inc. ("Consumers"), representing approximately US$246 million or 22% of STMG's consolidated revenues operates in the north eastern United States and derives its revenues from the retailing of consumer durables. All of these businesses are affected by seasonality, with the fourth quarter generally being the strongest quarter. Inflation and foreign exchange fluctuations also impact these operations.

During 1991, the Company entered into an agreement to divest its interest in STM Systems Corp., which represented the Company's participation in the information technology services industry. As discussed in the following paragraphs and accompanying financial statements, the results of operations of STM Systems Corp. have been presented as discontinued operations and the prior periods' financial information has been restated to reflect this.

Equity in earnings from affiliate, STMG, increased by 70% or $9.5 million in 1991 versus 1990, despite the marginal decrease in ISTM's interest in STMG. STMG's earnings increase was primarily due to the significant improvement in the results of operations of both SSMC and Consumers. Within SSMC, revenue growth was experienced in almost all regions of the Company's operations in 1991, despite the effects of the Gulf Crisis in the latter part of the year. This revenue growth resulted from greater emphasis on company operated retail stores, improved marketing efforts and increased emphasis on higher priced sewing machines which offer more features and the introduction of new consumer durable product lines. Unit sales of sewing machines have remained relatively constant.

Despite the recession, revenues in the United States and Canada, including Consumers, but excluding industrial sewing products, maintained slight growth in 1991 versus 1990. This is attributable to the introduction of new consumer durable products during 1990. Industrial sewing product revenues in the United States and Canada decreased 17% versus 1990 reflecting a very competitive market and the recessionary environment of the garment industry.

European operations of SSMC also experienced growth in revenues, notably in Greece where revenues were up by over 37% versus the year before, principally due to volume and price increases. European revenues, which grew by approximately US$124 million with the acquisition of Singer Europe by STMG in 1990, are expected to continue to grow as the Company expands into the Eastern European marketplace.

Revenues from Latin American operations, principally Mexico and Brazil, increased by over 29% in 1991 versus 1990 primarily due to increased volume, as new consumer durable product lines were introduced and additional company operated retail stores were opened. Inflation in excess of devaluation during much of the year contributed to the increased U.S. dollar revenues in Brazil. In March 1990, Brazil's new government introduced an anti-inflation economic program which included such measures as the launching of a new currency and restriction of depositors access to bank accounts, resulting in a significant liquidity squeeze and a dramatic drop in demand for consumer goods. During the calendar year 1990, the Brazilian economy entered a recession and the money supply was and remains restricted.

The Asian region marketing units, with the exception of Thailand discussed below, produced a modest overall increase in revenue of 1% primarily resulting from price increases. This modest increase occurred in spite of the situation in the Philippines where civil unrest, combined with an earthquake, drought and accelerated inflation, resulted in a US$10.6 million or 30% drop in revenues. This decrease, although primarily due to reduced volumes, is also due to an exchange devaluation of approximately 25% over the year.

Gross profit of STMG as a percentage of sales remained relatively constant. Selling and administrative expenses as a percentage of sales, excluding Singer Europe's effect in 1991, declined from 23.9% in 1990 to 22.9% in 1991.

STMG's equity in earnings from its affiliates increased approximately 16% to approximately US$6.5 million (after tax) in 1991 versus 1990, after adjusting 1990 to reflect a full years earnings for affiliates acquired in April 1989. The Thailand operations were the principal contributor with a 36% growth in revenues from US$116 million in 1990 to US$158 million in 1991. The Turkish affiliate also contributed to the increase as revenues grew by more than 58% to US$51.5 million. Royalties and license income increased 105%, again adjusting for the partial year in 1990, due to the introduction of two new license agreements during the year.

As with revenues, operating income improved in all regions of the world. Improved margin contributions as a result of higher revenues are the most significant contributor to this.

In 1991, the Company realized a gain on the dilution of its ownership interest in STMG of $2.3 million versus $2.2 million in 1990. In both years this gain resulted from STMG's issue of equity to non-affiliated investors in excess of the Company's participation.

Other revenues increased to $7.6 million in 1991 from $4.2 million in 1990. These revenues are primarily from two Canadian subsidiaries with operations in real estate holdings and microcomputer wholesale distribution. The increase is as a result of both increased rental income and computer sales.

Operating expenses decreased by $3.4 million in 1991 versus 1990 due to the reduction of corporate overheads through the decentralization of certain functions and the downsizing of certain Canadian subsidiary operations.

Interest expense has increased by $5.4 million to $6.9 million in 1991 reflecting a full year of interest on the Convertible Subordinated Debentures issued in November 1989. In addition, the increase also reflects the additional mortgage assumed on the completion of a rental property in 1991.

As described in Note 8 of the Notes to Consolidated Financial Statements, income taxes have remained low in both 1991 and 1990 primarily due to the non-taxable nature of the equity earnings from STMG.

As discussed in Note 12 of the Notes to Consolidated Financial Statements, the Company has announced a plan, and entered into an agreement, to dispose of all of its interest in the Information Technology business segment represented by STM Systems Corp. The Company expects to realize a profit during the second quarter of 1991 of approximately $29 million as a result of this sale. Pursuant to this decision, the results of operations of STM Systems Corp. have been reflected as discontinued operations in both 1991 and 1990. STM Systems Corp. operating losses in 1991 of $12.6 million include a special provision of $4.6 million for the required discontinuance of its Disaster Recovery business pursuant to a change in control restriction under its joint venture agreement with Sunguard Recovery Services Inc. STM Systems Corp. also provided a further $5.6 million for restructuring relating to the final integration of the former Datacrown and Canada Systems Group operations acquired in 1989. The financial statements for STM Systems Corp. for January 31, 1991, include provisions to mitigate exposures for certain warranties given to the purchaser pursuant to Note 12.

As announced on June 10, 1991, STMG will form a new subsidiary named The Singer Company N.V. composed of selected operations from Singer Europe and SSMC. This new company has filed a registration statement with the U.S. Securities and Exchange Commission relating to an initial public offering of common shares. It is expected that approximately 31.5% of these shares will be offered to the public raising approximately up to US$296 million. The net proceeds from this offering, expected to be received in July 1991, will be used to reduce STMG indebtedness and to redeem all of SSMC's preferred stock.

During 1991, Singer Europe was acquired by the Company and subsequently transferred to STMG. Funds for this acquisition were derived evenly from the use of cash generated from operations and the issue of STMG equity.

In connection with the acquisition of SSMC in 1990, STMG borrowed US$105 million under a credit agreement with certain lenders. This facility is repayable in three segments; US$10 million due October 1990; US$60 million due April 1991, and US$35 million due October 1992. The first trench of US$10 million was repaid in 1991 and the second trench was refinanced in April 1991. Interest expense related to this debt has been funded by equity issues, bank borrowing and internal funds. As described above, this debt is expected to be repaid using the proceeds of the equity offering.

As the last step in acquiring 100% ownership of SSMC, approximately 2.2 million outstanding SSMC common shares were converted to approximately 2.2 million of 15% Cumulative SSMC Series B Preferred shares, with each share having a stated value of US$38. Dividends on these shares, due semi-annually, are expected to be funded from SSMC general operating funds.As described above, this preferred stock is expected to be redeemed using the proceeds of the equity offering.

STMG working capital decreased from approximately US$130 million to US$57 million primarily due to the use of funds to acquire Singer Europe. STMG's cash flow from operating activities, excluding working capital, improved approximately US$41 million in 1991 versus 1990, principally due to improved SSMC results. Approximately US$12 million of cash was consumed in 1990 to fund SSMC restructuring and merger related costs provided for in 1990. Significant additional sources of cash in 1990 included US$25 million collected on the Furniture Note received on the sale of SSMC's U.S. based furniture business in 1990, and US$27 million from the conditional sale of a portion of Singer Taiwan. It is expected that SSMC will re-purchase the portion of Singer Taiwan sold for approximately US$25 million with funds from the initial public offering described above.

A subsidiary of the Company made capital expenditures of approximately $3.6 million in 1991 versus $6.6 million in 1990, primarily on the completion of a rental property. SSMC invested approximately US$18 million on capital expenditures, an increase of US$3.8 million over 1990 and, subject to global economic conditions, these expenditures are expected to increase in 1991 as SSMC continues to invest in improving its operations.

In June of 1991, STMG signed an agreement to acquire 10 million common shares, representing about 20% interest in the equity of Emerson Radio Corporation ("Emerson") for US$30 million. In addition, as part of the transaction, STMG would receive warrants covering two million common shares and would be exercisable for US$5 per share. If certain targets are met, STMG could receive additional warrants covering up to three million common shares. The contemplated transaction is subject to approval by Emerson's bankers, shareholders, and any other regulatory and statutory approvals. STMG is also contemplating the culmination of a voting trust with other primary shareholders which would give STMG effective control over Emerson. Payment for the acquisition is expected to be from internal resources and equity issues.

To the Shareholders of International Semi-Tech Microelectonics Inc.

We have audited the consolidated balance sheets of International Semi-Tech Microelectronics Inc. as at January 31, 1991 and 1990 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 31, 1991 and 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada
May 31, 1991

CONSOLIDATED BALANCE SHEET

(Incorporated under the laws of Ontario)

		As at January 31	
		1991	1990
Assets		(in thousands)	
Current assets:			
Cash	$	192	$ -
Accounts receivable		1,366	1,201
Due from affiliates		-	28,788
Inventories		953	703
Prepaid expenses and deposits		782	666
Net assets of discontinued operation		(1,072)	(2,438)
		2,221	28,920
Investment in affiliate		163,136	97,930
Fixed assets		29,418	26,879
Goodwill		813	434
Other		2,399	2,805
		195,766	128,048
	$	197,987	$ 156,968
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank loans and indebtedness	$	1,586	$ 2,102
Accounts payable and accrued liabilities		2,277	10,309
Due to affiliates		44,196	-
Current portion of long-term debt		536	355
Income taxes payable		234	152
		48,829	12,918
Long-term debt		30,349	27,733
Deferred income taxes		243	1,318
Convertible subordinated debentures		35,000	35,000
		65,592	64,051
Shareholders' equity:			
Capital stock		38,686	38,675
Contributed surplus		461	461
Cumulative translation adjustment		(5,368)	(2,393)
Retained earnings		49,787	43,256
		83,566	79,999
	$	197,987	$ 156,968

(See accompanying notes)

On behalf of the Board:

J Thompson
Director

C Cam
Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(Incorporated under the laws of Ontario)

	Year Ended January 31	
	1991	1990
	(in thousands)	
Income:		
Equity in earnings of affiliate	$ 23,123	$ 13,590
Gain on shares issued by affiliate	2,325	2,245
Other revenue	7,630	4,208
	33,078	20,043
Expenses:		
Operating expenses	8,994	12,385
Interest expense	6,867	1,424
Other expense (income)	(1,960)	(5,119)
	13,901	8,690
Income from continuing operations before income taxes	19,177	11,353
Income taxes	39	80
Income from continuing operations	19,138	11,273
Discontinued operations:		
Income (loss) from operations of STM Systems Corp., net of applicable income tax recovery (expenses) $ 4,997 (1990 -($ 3,363))	(12,607)	2,108
Net income for the year	6,531	13,381
Retained earnings, beginning of year	43,256	29,875
Retained earnings, end of year	$ 49,787	$ 43,256
Basic earnings per share (in dollars):		
Income from continuing operations	$ 1.49	$ 0.93
Net income	$ 0.51	$ 1.11
Fully diluted earnings per share (in dollars):		
Income from continuing operations	$ 1.32	$ 0.92
Net income	$ 0.51	$ 1.06

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Incorporated under the laws of Ontario)

	Year Ended January 31	
	1991	1990
	(in thousands)	
Cash provided by (used in):		
Operating activites:		
Net income before discontinued operation	$ 19,138	$ 11,273
Add (deduct) the undernoted:		
Depreciation and amortization	1,254	1,281
Gain on shares issued by affiliate	(2,325)	(2,245)
Equity earnings retained by affiliate	(15,991)	(8,568)
Deferred income taxes	(1,075)	-
	1,001	1,741
Net decrease (increase) in non-working capital balances related to operations	(8,713)	4,940
	(7,712)	6,681
Financing activites:		
Increase in long-term debt	9,703	46,141
Repayment of long-term debt	(6,906)	(345)
Net proceeds of equity issued	11	29,478
	2,808	75,274
Investment activities:		
Purchase of fixed assets	(3,534)	(7,506)
Investment in affiliate	(49,865)	(36,260)
Decrease in long-term receivable	-	224
Net increase (decrease) in advances to/from affiliates	72,984	(22,620)
Decrease in amounts due from related parties	-	3,865
Increase in other assets	-	(3,001)
Cash advanced to discontinued operation	(13,973)	(7,291)
	5,612	(72,589)
Increase in cash	708	9,366
Bank indebtedness, beginning of year	(2,102)	(11,468)
Bank indebtedness, end of year	$ (1,394)	$ (2,102)
Bank indebtedness is represented by:		
Cash	$ 192	$ -
Bank loans and indebtedness	(1,586)	(2,102)
	$ (1,394)	$ (2,102)

(See accompanying notes)

International Semi-Tech Microelectronics Inc. ("ISTM" or the "Company") is a Canadian-based multi-national company, with principal interests in the retail and distribution of consumer electronics and durable goods through Semi-Tech (Global) Limited ("STMG"), formerly Semi-Tech Microelectronics (Far East) Limited ("STMFE"), a public company listed on the Stock Exchange of Hong Kong Limited.

1. SUMMARY OF ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied within the framework of the accounting policies described below.

(A) BASIS OF PRESENTATION

(i) Investments

Investments in which the Company has significant influence are accounted for using the equity method.

(ii) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned, except for subsidiaries subject to a formal plan of disposal, which are accounted for as non-consolidated investments and are carried at the lower of net realizable value and equity method value.

(B) INVENTORIES

Inventories, which are substantially comprised of merchandise, are stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(C) FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Fixed assets are recorded at cost less related government grants and credits. Fixed assets are depreciated and amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Buildings	3% - 4%
Machinery and equipment	20% - 33%
Other equipment	3% - 20%
Furniture and fixtures	10% - 20%
Leasehold improvements	Over term of lease

(D) FOREIGN CURRENCY TRANSLATION

STMG and its subsidiaries are classified as self-sustaining foreign operations. The assets and liabilities have been translated at the exchange rate in effect at the balance sheet date. Equity in earnings has been translated at the weighted average exchange rate for the year. Exchange gains and losses arising from translation of this operation are deferred and included in the Cumulative Translation Adjustment shown separately in shareholders' equity, until there is a disposition of all or part of the investment, or a dividend is received, in which case there is a pro rata recognition in the income statement of the deferred translation gains or losses.

Foreign currency transactions are translated at exchange rates prevailing at the date of the transaction. Monetary balances denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Translation gains and losses are reflected in consolidated net income for the year.

(E) RESEARCH AND DEVELOPMENT

Research and development costs, which do not meet the criteria for deferral, are expensed in the year they are incurred. Investment tax credits related to research and development expenditures are applied to reduce the related cost or fixed asset acquired.

(F) INCOME TAXES

The Company follows the tax allocation basis of accounting. On this basis the effect on income taxes of timing differences between income as reported in the financial statements and income for tax purposes is reflected as deferred income taxes.

(G) EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding during the year. The fully diluted earnings per share calculation is based on the assumption that all warrants, options and conversion privileges were exercised at the beginning of the year (or at the date of issue during the year) and the funds received were invested at an annual rate of 10% (1990- 10%).

2. INVESTMENT IN AFFILIATE

The changes in the Company's 39% investment in its affiliate STMG, are as follows;
(in thousands):

	1991	1990
Balance of investment, beginning of year	$ 97,930	$ 40,482
Equity in earnings	23,123	13,590
Gain on dilution	2,325	2,245
Translation adjustment	(2,975)	583
Dividends	(7,132)	(5,022)
Shares acquired	49,865	46,052
Balance of investment, end of year	$ 163,136	$ 97,930

The following summarized financial information has been extracted from the audited consolidated financial statements of STMG for the year ended January 31, 1991 presented to its shareholders and prepared on the basis of accounting principles generally accepted in Hong Kong (translated into Canadian dollars at $1HK = $0.1485 CDN in millions):

	1991	1990
Current assets	$ 838	$ 598
Fixed assets	407	260
Interest in associated companies	127	51
Other long-term assets	120	55
	$ 1,492	$ 964
Current liabilities	$ 772	$ 447
Long-term liabilities	127	163
Minority interests	149	110
Shareholders' equity	444	244
	$ 1,492	$ 964
Revenues	$ 1,281	$ 713
Profit from consolidated operations	$ 73	$ 40
Share of profits of associated companies	13	6
Profit before taxes and minority interests	86	46
Taxes	(18)	(10)
Minority interests	(1)	(1)
Net profit attributable to shareholders	$ 67	$ 35

On December 1, 1989, the Company entered into an agreement to acquire the sewing and consumer durable businesses (the "Business") of European Home Products Plc. The acquisition was completed on March 15, 1990. The gross consideration, funded through borrowings from affiliates, of 47 million pounds (UK) was paid in cash and notes. This amount was subject to a net asset valuation which resulted in a reduction of the consideration by approximately 2 million pounds (UK).

Effective September 1, 1990, STMG acquired from the Company a 100% interest in the Business for consideration equal to the Company's cost plus its expenses incurred in the acquisition. The Company recognized a gain on transfer of the Business to STMG of $2,677,000.

3. FIXED ASSETS

At January 31, fixed assets were comprised of (in thousands):

	1991	1990
Land and buildings	$30,617	$ 27,288
Machinery and equipment	1,490	1,192
Other equipment	82	-
Furniture and fixtures	950	964
Leasehold improvements	18	-
	33,157	29,444
Accumulated depreciation and amortization	(3,739)	(2,565)
	$29,418	$ 26,879

4. OTHER ASSETS

At January 31, other assets were comprised of (in thousands):

	1991	1990
Part VII tax recoverable	$ 1,208	$ 1,208
Deferred financing charges	1,110	1,112
Purchased software	-	285
Other	81	200
	$ 2,399	$ 2,805

5. BANK INDEBTEDNESS

The Company and its subsidiaries have general security agreements pledging all assets (other than real property and its investment in shares of STMG), and specific assignments of inventory and accounts receivable as security for its bank indebtedness.

6. LONG-TERM DEBT

(A) DETAILS OF LONG-TERM DEBT

At January 31, long-term debt consists of (in thousands):

	1991	1990
Mortgages, bearing interest at rates ranging from 11.5% to 14% due through November 1996	$ 29,451	$ 21,241
Loan, bearing interest at prime rate plus 1/2% due June 15, 1990	-	6,555
Loan, non-interest bearing	1,203	-
Other	231	292
	30,885	28,088
Less: current portion	(536)	(355)
	$ 30,349	$ 27,733

The Company and its subsidiaries have pledged as collateral for the mortgages, first and second charges over the land and buildings as well as an assignment of the land lease, and a $4 million demand debenture and general assignment of book debt for the non-interest bearing loan.

Interest expense related to long-term debt during the year ended January 31, 1991, was $3,182,000 (1990 - $3,559,000) and $615,000 (1990 - $154,000) has been capitalized.

Principal repayments over the next five fiscal years are: 1992 - $536,000; 1993 - $3,803,000; 1994 - $8,624,000; 1995 - $217,000; and 1996 -$244,000.

7. CONVERTIBLE SUBORDINATED DEBENTURES

In November 1989, the Company issued $35,000,000 of 10% convertible subordinated debentures, unsecured, due November 30, 1999. The debentures are convertible into ISTM common shares at a rate of 100 shares per $1,000 of principal any time prior to the debenture due date. The Company may call the debentures, under certain specified circumstances, at a premium, any time after November 30, 1991. Interest expense on these debentures during the year amounted to $3,500,000 (1990 - $583,000).

8. INCOME TAXES AND RELATED CONTINGENCIES

(A) PROVISION FOR INCOME TAXES

The difference between the income tax provision recorded and the provision obtained by applying the Company's basic Canadian tax rate is as follows:

	1991	1990
Canadian corporate tax rate	44.3%	44.3%
Income taxes at the Canadian rate on income from continuing operations	$ 8,495	$ 5,029
Equity in earnings of affiliate	(10,243)	(6,020)
Non-taxable gain on dilution	(1,030)	(994)
Losses not tax effected	4,003	2,049
Income not subject to tax	(1,186)	-
Other	-	16
Provision for income taxes	$ 39	$ 80

(B) PART VIII TAX AND RELATED CONTINGENCIES

During 1984 and 1985, Semi-Tech Microelectronics Corp. ("STM Corp."), a subsidiary of ISTM, issued financial instruments which entitled investors to a scientific research tax credit (SRTC) for net proceeds, after redemption of the notes, of $10,493,000. Pursuant to Part VIII of the Income Tax Act (Canada)("the Act"), STM Corp. became liable to pay a refundable tax of $11,316,000 as a result of these financial instruments. Part VIII tax is refundable to STM Corp. as expenditures on account of scientific research and experimental development are incurred by it and so designated for purposes of Part VIII of the Act.

STM Corp. designated for purposes of Part VIII of the Act, sufficient qualifying expenditures in 1985 and 1986 on account of scientific research and experimental development to eliminate the full amount of this liability. Revenue Canada, Taxation issued an assessment to STM Corp. and a subsidiary disallowing the deductions of certain expenditures for purposes of Part VIII of the Act and assessed for the 1985 taxation year, Part VIII tax net of a Part VIII tax refund of $8,942,000 which amount has accumulated interest of approximately $8,800,000 for a total tax and interest liability to January 31, 1991, of $17,742,000.

Management disagrees with Revenue Canada's position and notices of objection contesting the issuance of the assessments have been filed. Although the outcome of this matter cannot be predicted at this time, counsel to the Company has advised that management's view, that the Company's position is sustainable, is reasonable.

If the Company is unsuccessful in sustaining its position, the Company believes that it has available unclaimed research and development expenditures of approximately $8,300,000 from subsequent years which can be applied to reduce the impact of an unfavourable outcome to its objection to the assessments by $4,150,000. These amounts, however, may only be applied on a current basis and would not have the effect of reducing interest expense that was accrued.

The Company has provided security, in the form of a pledge of a portion of the Company's shares of STMG and a collateral security mortgage on a building, in respect of the amounts assessed, pending resolution of the matter.

The proposals of Revenue Canada, Taxation to disallow, under Part I of the Act, the deduction of certain expenses incurred during 1985 and 1986 taxation years were resolved, except for a foreign currency adjustment which can only be resolved once the deductability of scientific research and development expenditures are resolved. A waiver has been provided by STM Corp. for the 1985 taxation year in connection with the approximately $680,000 of foreign currency expenses in dispute.

During 1986, the Company issued 5,085,252 shares which entitled investors to a share purchase tax credit (SPTC) and 5,085,252 common share purchase warrants for proceeds of $5,085,000. Pursuant to Part VII of the Act, a subsidiary of the Company became liable for a refundable tax of $1,208,000. This tax paid to Revenue Canada is refundable through the application of investment tax credits earned by the subsidiary.

The Company's subsidiary has not earned any investment tax credits which can be applied currently to recover the Part VII tax which it has paid. However, the Company anticipates that through future research and development or other qualifying activities, sufficient investment tax credits will be available to recover the Part VII tax paid. The amount of tax recoverable has been recorded as a long-term receivable.

The Company estimates, subject to the results of its objection to Part VIII assessments and the related foreign currency issue under waiver, and based on returns filed for 1990 and prior years, that it and its Canadian subsidiaries have operating loss carryovers for Canadian tax purposes of $16,000,000 which expire from 1992 to 1999, unapplied expenditures on account of scientific research and experimental development of $8,300,000 which can be carried forward indefinitely and unapplied investment tax credits of $960,000 which expire from 1993 to 1999.

The Company is currently unable to estimate the effect, if any, of the outcome of the matters referred to above on these balances or the amounts of additional interest or penalties that could be imposed by Revenue Canada, Taxation. Accordingly, no provision has been made in the accounts for these contingencies. To the extent that the Company is unsuccessful in sustaining its position, a prior period adjustment will be made to reduce retained earnings and increase income taxes payable by the amount of tax owing to Revenue Canada. Interest expense, if any, found to be owing will be reflected in the periods to which it relates.

9. CAPITAL STOCK

(A) AUTHORIZED AND ISSUED

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series.

At January 31, issued capital stock consisted of the following (dollars in thousands):

	1991		1990	
	Number	Amount	Number	Amount
Redeemable preferred shares	200	$ 11,912	200	$11,912
Common shares	12,857,293	26,774	12,854,293	26,763
		$ 38,686		$38,675

On July 18, 1989, the Company issued 200 Series A Preferred shares, with a redemption price of US$50,000, participating ratably in dividends declared on common shares. These shares are redeemable at any time at the redemption price, subject to no less than 100 shares being redeemed by March 31, 1992, and the remaining 100 shares by March 31, 1993. These shares were issued for aggregate cash proceeds of $11,912,000.

(B) WARRANTS

At January 31, 1991 and 1990, 883,750 warrants to purchase one common share on the basis of ten warrants plus $5.70 per share, expiring June 1992, were outstanding.

(C) OPTIONS

The Company has an executive stock option plan for key employees to be designated by the Board of Directors. The aggregate number of shares reserved for issuance under this plan will not exceed 10% of the issued and outstanding common shares of the Company. The exercise price per share of an option is the fair market value of the common shares on the date the option is granted. Of the shares subject to an option, 20% may be purchased after one year from the date of the grant of the option and a further 20% each year thereafter. The options expire on the sixth anniversary of the date of the grant, subject to specified exemptions.

During fiscal 1991, no options were issued (1990 - 491,100), options to purchase 50,000 shares at a price of $3.85 per share were cancelled (1990 - 65,000), and options to purchase 3,000 were exercised at a price of $3.85 per share (1990 - 26,000). All outstanding options as at October 1, 1990, issued under the executive stock option plan having an exercise price in excess of $4.30 per share were changed to reduce the exercise price to $4.30 per share. At January 31, 1991, options for 1,192,100 shares (1990 - 1,245,100) were outstanding at exercise prices ranging from $3.85 to $4.30. These options expire during 1994 and 1995.

10. RELATED PARTY TRANSACTIONS

During the year, the Company has no management fee income (1990 - $1,685,000) or interest income (1990 - $1,805,000) from STMG. Amounts due to or from STMG are due on demand, are non- interest bearing and have no fixed terms of repayment.

The Company, together with a certain lender, has jointly and severally agreed to make available US$19.6 million of credit to SSMC Inc., a subsidiary of STMG, until a US$15 million note due to SSMC Inc. in August 1993 with interest at 11% and a US$4.6 million subordinated note due to SSMC Inc. are repaid. To date, SSMC Inc. has not drawn upon this facility.

The Company has also agreed to guarantee credit facilities representing US$50 million drawn upon by STMG.

The Company rents two data centres (1990 - one) and office space to STM Systems Corp. Rental revenues were $3,614,000 (1990 - $2,673,000). In 1990 the Company charged STM Systems Corp. $2,100,000 in management fees and research and development fees.

11. COMPARATIVE INFORMATION

In addition to the deconsolidation of the discontinued operation, certain prior year balances have been reclassified to conform with the current year's presentation.

12. DISCONTINUED OPERATION

Pursuant to a plan of disposal initiated prior to the year end, on May 11, 1991, the Company entered into an agreement to sell its subsidiary, STM Systems Corp., to Westbridge Computer Corporation, ("Westbridge") for consideration of (i) 4,413,333 Class A shares of Westbridge; (ii) a $10 million 11% debenture of Westbridge due five years after issue; (iii) a promissory note of Westbridge for $2 million due three years after issue; and (iv) cash of $10.2 million payable on closing. As a condition of closing, amounts due to the Company and its affiliates (net of amounts due to STM Systems Corp.) amounting to $15.3 million will be converted to equity of STM Systems Corp.

The Company has committed to dispose of all of Westbridge shares acquired in the above transaction not later than 2 years after closing. The Company will continue, for a period of 2 years, its guarantee of an $18,000,000 12% debenture issued by STM Systems Corp. The Company has also agreed to guarantee up to $5,000,000 of bank indebtedness of Westbridge.

The agreement is subject to various conditions of closing, including regulatory approvals, and is scheduled to close in June 1991.

The operating results related to STM Systems Corp. to January 31, 1991, (the measurement date for purposes of determining the Company's gain on disposition) are as follows (in thousands):

	1991	1990
Revenue	$227,189	$209,548
Operating expenses	209,885	184,395
Depreciation and amortization	14,039	12,572
	223,924	196,967
Income before undernoted	3,265	12,581
Interest expense	7,961	5,662
Restructuring costs	5,494	-
Income (loss) before income taxes and discontinued operation	(10,190)	6,919
Provision for (recovery of) income taxes	(2,193)	3,998
Income (loss) before discontinued operation	(7,997)	2,921
Loss from discontinued operation	(4,610)	(813)
Net income (loss)	$(12,607)	$ 2,108

The net assets of STM Systems Corp. are as follows (in thousands):

	1991	1990
Current assets	$ 42,685	$ 39,454
Fixed assets	24,329	25,009
Other assets	22,630	10,525
Goodwill	23,960	12,042
Current liabilities	(70,590)	(60,962)
Long-term debt	(36,237)	(27,336)
Other liabilities	(7,849)	(1,170)
Net assets (liabilities) of discontinued operation	$ (1,072)	$ (2,438)

The company expects to recognize a gain on the disposal of STM Systems Corp. of $29.3 million before taxes. Taxes of $5.6 million arising on this sale are expected to be offset by applying losses carried forward from prior years.

On April 5, 1991, STM Systems Corp., along with a number of other parties, received a claim totalling approximately $15,000,000 plus interest and costs for an alleged breach of contract. Management of STM Systems Corp. does not believe the claim has merit and has engaged counsel to defend the action. The outcome of this matter is not determinable at this time. The loss, if any, arising from this legal action would be accounted for as a prior period adjustment. The agreement for the sale of STM Systems Corp. limits the Company's liability to an amount that is not material.

INTERNATIONAL SEMI-TECH MICROELECTRONICS INC.

Chairman

Dr. Stanley Ho

Directors

James H. Ting*
Dr. Frank E. Holmes
Chuck C. H. Tam
John Thompson*
Director of Gornitzki, Thompson & Little
John T. Evans*
Partner–Blake, Cassels and Graydon

Officers

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President & Chief Executive Officer

Dr. Frank E. Holmes
Executive Vice President,
Chief Operating Officer & Secretary

Chuck C. H. Tam
Executive Vice President &
Chief Financial Officer

Michael H. List
Vice President

** Member of Audit Committee*

ADDRESSES

International Semi-Tech Microelectronics Inc.

131 McNabb Street, Markham,
Ontario L3R 5V7
Tel: (416) 475-2670
Fax: (416) 475-3652

Semi-Tech (Global) Limited

Suite 19/F, Three Exchange Square
8 Connaught Place, Hong Kong
Tel: 011-852-5241043
Fax: 011-852-8453558

GENERAL INFORMATION

Solicitors

Blake, Cassels & Graydon
Toronto, Ontario

Auditors

Peat Marwick Thorne
Toronto, Ontario

Transfer Agent

Montreal Trust
Toronto, Ontario

INTERNATIONAL SEMI-TECH MICROELECTRONICS INC.
131 NcNabb Street, Markham, Ontario L3R 5V7
Tel: (416) 475-2670 Fax: (416) 475-3652

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