C

1990 Annual Report

International Semi-Tech Microelectronics Inc.

Contents

Mission Statement

To be a world leader in the distribution and manufacturing of consumer electronics and durables, utilizing the **SINGER** *name, its distribution network, and our expertise in global information systems and technology, to create wealth for our customers, shareholders and employees.*

SINGER Consumers* STM SYSTEMS CORP.

* Consumers is a registered trade mark of Consumers Distributing Inc., in the United States.

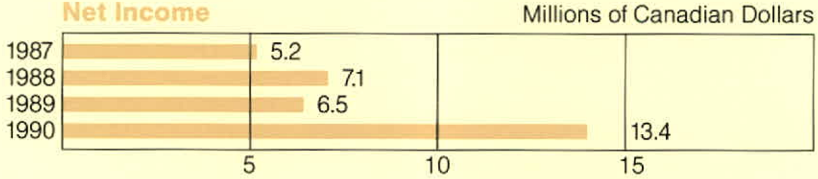
Financial Highlights

Geographical Distribution (Revenue)

- Canada 11%
  - 9% Sewing Products
  - 91% Information Services
- USA 23%
  - 68% Consumer Durables
  - 32% Sewing Products
- Latin America 10%
  - 26% Consumer Durables
  - 74% Sewing Products
- Pacific Rim 25%
  - 72% Consumer Durables
  - 28% Sewing Products
- Africa/Mid East 3%
  - 14% Consumer Durables
  - 86% Sewing Products
- Europe 28%
  - 53% Consumer Durables
  - 47% Sewing Products

Net Income

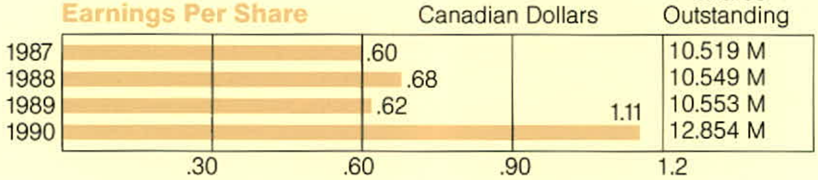
Millions of Canadian Dollars



Earnings Per Share

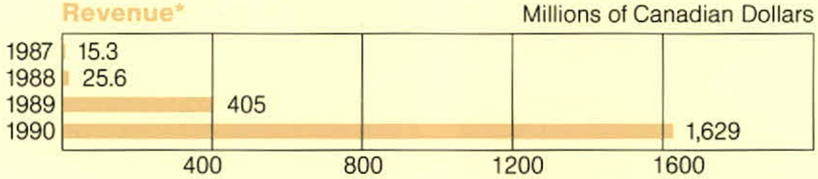
Canadian Dollars

Shares Outstanding



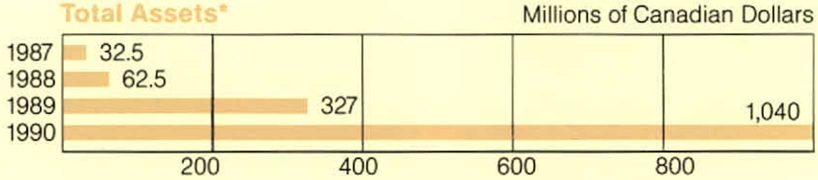
Revenue*

Millions of Canadian Dollars



Total Assets*

Millions of Canadian Dollars



* Group total including company and its affiliates.

Corporate Profile

International Semi-Tech Microelectronics Inc. has become one of the top 50 Canadian-owned management holding companies by pursuing three basic strategies: building a superior distribution network based on the world-famous SINGER brand name, increasing manufacturing and trading activities in the Pacific Rim, and employing information systems technology to manage the revenue base. By pursuing these strategies, Semi-Tech now manages a global business with $2 billion in revenue and assets in excess of $1 billion. Semi-Tech is strategically positioned as a global manufacturer and distributor of consumer electronics and durable goods as well as a leading North American retail merchandiser and computer systems integrator. With recent developments in international trade, Semi-Tech intends to play a leading part in the expanding global market of the 21st century by capitalizing on its strengths in the Pacific Rim, Europe and North America. From its head office in Markham, Ontario, Semi-Tech directs an expanding business with 28,000 employees and operations in more than 100 countries. Semi-Tech is one of the few Canadian companies to be listed on a number of stock exchanges around the world. In Toronto, International Semi-Tech Microelectronics Inc. is listed under symbol ISE while its Far East affiliate, Semi-Tech Microelectronics (Far East) Limited, is listed on the Hong Kong Stock Exchange, symbol 448. Additional affiliates are also listed in Thailand, Pakistan, Sri Lanka, India and Bangladesh.

James H. Ting
President & Chief Executive Officer

President's Message

To Our Shareholders

Semi-Tech – A True Global Perspective

In my opening comments of last year's annual report, I commented on the emergence of worldwide peace, unprecedented in our history, and of the economic world finally "going global". The emerging and exciting changes in Europe exemplify a continuation of these trends, further reinforcing our conviction in our mission statement. Upon reflection, one can look back at the enormous growth in our world economies following World Wars I and II. This time, the changes have been more peaceful with the transformation of Europe and in time, China. Semi-Tech is positioning itself for the next economic boom, in anticipation that history will repeat itself.

Our Strategy

Consumer durables marketing essentially involves three phases: manufacturing, wholesale/distribution, and retailing. Traditionally, companies start manufacturing and sell to wholesalers or the OEM (Original Equipment Manufacturer) market who, in turn, distribute to retailers. Gradually, these manufacturers extended into distribution and at the same time created a brand name. This process is known as Product-Driven-Marketing. Examples abound of Japanese and Korean companies that have successfully done this. As the global market becomes more competitive, this process becomes more difficult and expensive to achieve. Our strategy is the reverse way. We first built retail and then extended it to wholesale - Phases I and II. From wholesale, we emerge into manufacturing - Phase III. To ensure success, this approach would need a well-known distribution network. We have this with the SINGER brand name. Semi-Tech's strategy also allows us to be selective in the choice of manufacturing partners as the SINGER name is a magnet to many large manufacturing companies that have no distribution vehicle. We are implementing an important fourth phase - the application of information technology. Our four phase strategy is positioning your company for the 90s, to take advantage of the changing world.

	(Phase III) Manufacturing		(Phase IV) Application of Information Technology
	(Phase II) Distribution		
	(Phase I) Retail		

Traditional Method

Semi-Tech Method

Phase I and II

The first two phases of our strategy, a global retail/distribution network utilizing the SINGER brand name, are now largely in place, especially with the acquisition of the Consumer Products and Sewing Divisions of European Home Products, PLC (EHP), formerly the Singer European distribution business, in March of this year. We continue to work on those countries where we do not have a presence, such as certain African countries. The opportunity now is to fill this retail pipeline with new Singer products such as a family of home related consumer electronics and durables. To do this, we are beginning to concentrate on Phase III of our plan.

Phase III

Singer currently manufactures 20% of its products in its own factories with almost all of this production in sewing machines accounting for nearly 3 million units per year. We want to increase our manufacturing capacity to 40%, but rather in other consumer products such as T.V.s, audio equipment and non-sewing related products. The Pacific Rim countries have a large number of excellent, efficient and sizeable manufacturing companies that need a distribution network and a brand name for their products in consumer electronics and durables. One such company is Tomei Industrial (Holdings) Limited, of which, we recently announced that our Far East affiliate would acquire 20%. It designs, manufactures and sells consumer audio products and together, we will launch a line of Singer-branded products in the autumn. We at Semi-Tech have always believed in having strong partners to move forward quickly. We continue to work actively to develop Phase III by looking for additional strategic manufacturing partners who can add to our product line and our profitability with emphasis on low capital expenditure.

Phase IV

Key to our retail/distribution and manufacturing phases is the application of information technology to manage The Group. Our early insistence in laying this groundwork with our Canadian company will pay dividends as we use their knowledge and experience to improve operating results. Point-of-Sale ("POS"), automated distribution centres and management information systems are key to profits as the more successful retailers in the U.S.A. have proven. We will use the STM Systems Corp.'s "Total Solutions" approach to accomplish this.

International

Your company continues to seek new opportunities. Our negotiations with the U.S.S.R. are reaching final stages leading to an agreement to sell our sewing technology to the U.S.S.R. Our European management continues to explore new ways of increasing marketing in countries such as Hungary, East Germany and Poland. Discussions are underway to return to us the former Singer plant in Wittenberge, East Germany. Our plant in China continues to increase its sewing machine capacity while our Malaysian facilities are under construction to prepare for increased demand for sewing products. New products are being prepared to fill the pipeline.

Consolidation

In 1989, we consolidated your company, both as financial and operational entities. Following the successful acquisition of SSMC Inc. ("Singer") in April 1989, we began transforming the old Singer Company to be able to compete in the 90's and on into the 21st century. It began simply with a meeting of all Singer management on May 20, 1989 in Bangkok when we introduced our mission statement to them.

Since then, we have: • established a tax efficient, low-cost world headquarter operation in Hong Kong; • divested of non-profitable operations such as the Singer plant in Italy and the furniture business in the U.S.A.; • relocated R & D to the manufacturing level and therefore closed the U.S. facilities, substantially reducing expenses while retaining all R & D capacity; • raised significant amounts of equity capital, reducing total debt while strengthening our Balance Sheet; • re-organized the company's manufacturing facilities; • merged the U.S. operations of Singer with that of Consumers Distributing Inc., U.S.A. • returned the European distribution channels to Singer with the acquisition of the Consumer Products and Sewing Divisions of European Home Products, PLC (EHP) on March 15, 1990; • invested in 20% of Tomei Industrial (Holdings) Limited, a Hong Kong-based consumer audio products manufacturer. This consolidation effort is not yet completed. We announced in 1989 that we were looking at other operations within Singer which had significant value that we might dispose of or refinance. This effort continues and we will advise our shareholders of our progress. The objective remains to ensure that the operations of your company are maximized operationally and financially.

Fiscal Responsibility

In our 1989 annual report, we discussed the transformation of The Group and our determination to have conservative fiscal policies. We were successful in not only raising additional equity but in refinancing our acquisition loan at attractive rates. We recently announced the sale of 80% of Singer Taiwan for $75 million, a Rights Offering of $122 million in Hong Kong and the collection of $30 million on the Singer Furniture Note. In order to demonstrate how these events have strengthened our Hong Kong subsidiary, we have included the following summary of financial highlights.

	($ Millions)
Total Assets	1,418
Current Assets	949
Current Liabilities	586
Long-term Debt	331
Cashflow	101
Total Shareholders' Equity	500
Market Capitalization	575

Our Hong Kong shareholders understand the potential of the strengthened company, as reflected in the market capitalization of Semi-Tech Microelectronics (Far East) Ltd.

Operations and Management

We are proud of the significant changes in the profitability of Singer. Operating income improved dramatically as compared to last year. This trend continues in 1990 with an excellent first quarter already achieved. With Semi-Tech's acquisition of the European distribution network for Singer products, and the major impact that Semi-Tech and Singer management has had in the turnaround of SSMC's business, we look to 1990 with assurance and confidence. STM Systems Corp. has successfully transformed itself into an international company while expanding its base of operations in western Canada with the pending acquisition of Manitoba Data Services ("MDS"). STM Systems Corp. had a successful year in 1989 and has continued the process of integrating Canada Systems Group and Datacrown. STM Systems Corp. is well positioned to accept the challenge of Phase IV, that is, the application of information technology for the Semi-Tech Group of Companies, to improve operating results. We are exploring the opportunity of causing STM Systems Corp. to become a publicly-held company, further strengthening our Balance Sheet. Semi-Tech's success is primarily due to the strength and depth of its operating companies' management. We continue to be impressed with the loyalty, dedication and tremendous experience at all operating companies. The reorganization is ongoing but already substantially in place. The operational review that follows gives much more detail on the results that we have been able to achieve.

Conclusion

Much has been accomplished but there continues to be new opportunities. It has been an exciting year for all, with hard work by all of your officers and employees. The task has just started. As a quote from William Shakespeare in last year's annual report said: *"There is a tide in the affairs of men which taken at the flood, leads onto fortune."* We are using the tide to our advantage. As we chart new waters, we do it fully cognizant of our responsibility to our customers, shareholders and employees. Canada must, to compete in the next century, have capable, global conglomerates. The experience that we have gained in international markets, in world financial circles, in the building of a global distribution business and in manufacturing, will now be applied to further strengthen your company. Our vision is now reality – success is at hand. Semi-Tech is poised for even greater heights, to continue its mission statement. In closing, I would again like to express my very sincere appreciation to our investors, shareholders, employees and colleagues around the world. Your efforts and dedication in the past year have made our vision a reality. You must be proud of what you have accomplished. We will continue to work hard for our shareholders and employees.

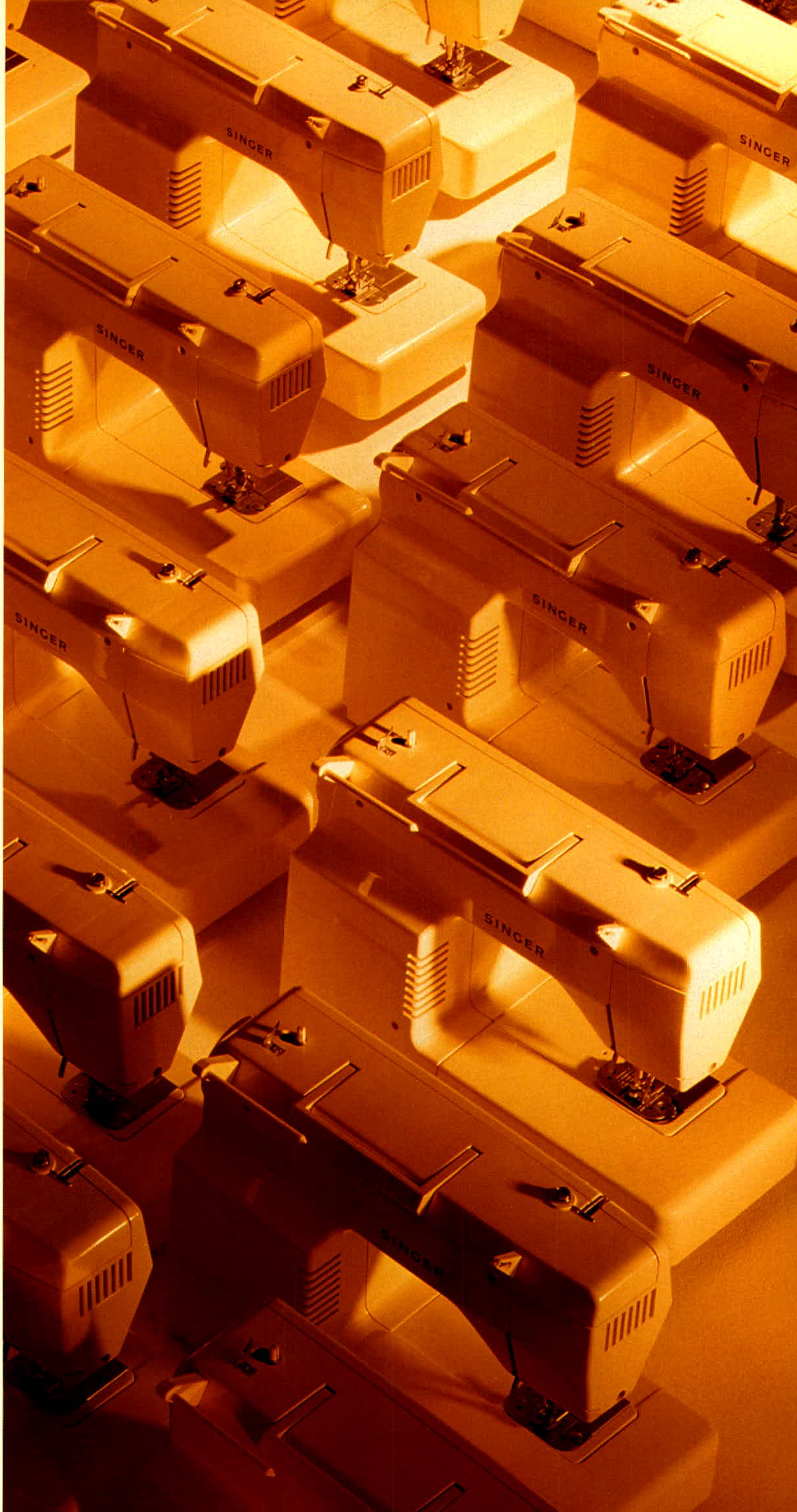
James H. Ting
President and Chief Executive Officer
June 18, 1990

Together Again

SINGER

Since 1851, Singer has been synonymous with quality, reliability, service and innovation in the design of consumer products and its venerable sewing machine.

Right: Singer Sewing Machines



Operational Highlights

The year in review was an extremely productive one for the Singer Group of Companies including Consumers Distributing (U.S.). There were many highlights during 1989 as we worked to bring the companies "TOGETHER AGAIN", this year's theme of the Singer Marketing Conference held in Toronto, representing the rebuilding of the company.

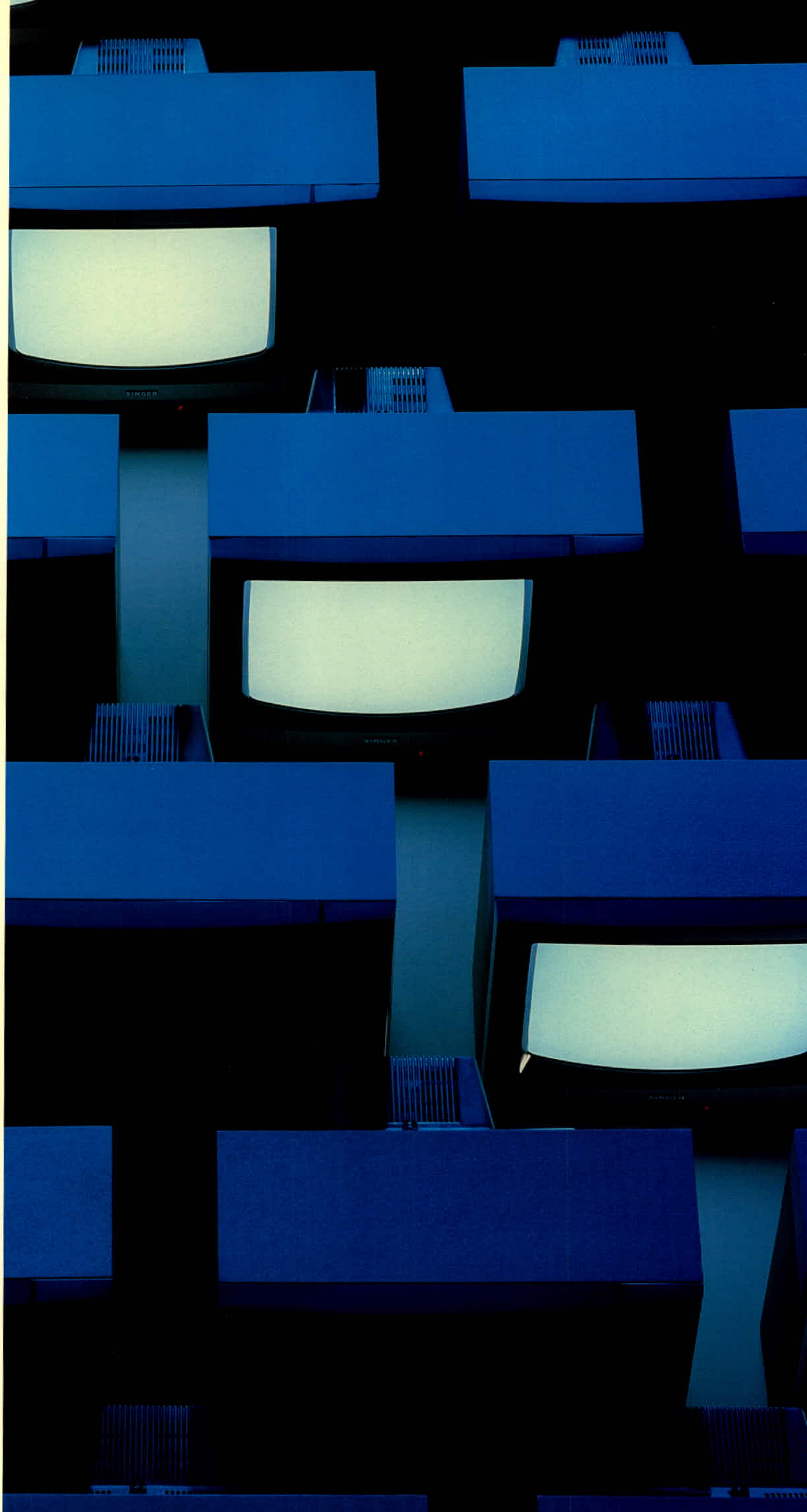
Streamlining the Organization

Following our acquisition of Singer in April, 1989, we moved quickly to streamline the organization and expedite the decision-making process throughout the company both at Singer and at Semi-Tech, to ensure we had top quality management at all levels. One of our first moves was to decentralize many corporate functions and return them to the operating units and the field locations where the responsibilities more properly lie. Both marketing and manufacturing have been consolidated at the operational level to increase our ability to better serve our customers. We also closed the U.S. headquarters and relocated it to Hong Kong where we have now established the Singer World Headquarters. As part of the streamlining process, we realigned the operational units into seven geographic regions: Central, South East Asia and Pacific; Brazil; Mexico and Latin America; Singer Europe; Singer Japan; the U.S. and Canada; and Africa and the Middle East. This allows field managers to more effectively understand the local economic, financial and cultural differences, resulting in closer ties with each region's customers. It also allows country management to operate its own local banking arrangements within their countries. We also identified a number of countries requiring special attention and are resolving certain local issues aimed at returning these to a profitable status. Training and incentive programs were reintroduced throughout the organization. This has helped to improve staff capabilities and experience, and provided new and effective incentive plans to increase performance levels and reward country management for profit improvements.

Following our acquisition of Singer in April, 1989, we moved quickly to streamline the organization.

Distributing consumer products in more than 90 stores, Consumers Distributing Inc. will provide Singer a direct sales base in the U.S.

Right: Singer Televisions



Re-establishing Retail Strength

We quickly reversed a trend of de-emphasizing retail distribution that began prior to our acquisition of Singer, by opening more Singer shops and re-establishing managements in countries where Singer previously had distributors. Significant expansion of retail shops was carried out in Mexico and Brazil where we opened stores and added new products. At the same time, we established direct operations in the Dominican Republic, Grenada, Togo and New Zealand. In the important U.S. market, we expanded our distribution network by signing contracts with major retail chains including Sears and Montgomery Ward. At the same time, we added to our attractiveness for our distributors by adding new products. To this end, steam presses, vacuum cleaners and a range of small appliances will be launched during 1990. But most importantly, Singer has returned to the retail market in the U.S. for the first time in many decades through Consumers/Singer. In other regions, we increased the number of stores in Australia and negotiated a number of joint ventures with existing distributors in the developing nations of Africa and the Middle East where we plan to expand our direct marketing network. As the company that invented "hire purchase" or instalment selling in New York in 1856, we will continue to offer this attractive and profitable alternative to our customers in all of our new retail outlets.

We have recently opened new stores as part of Singer's expansion program.

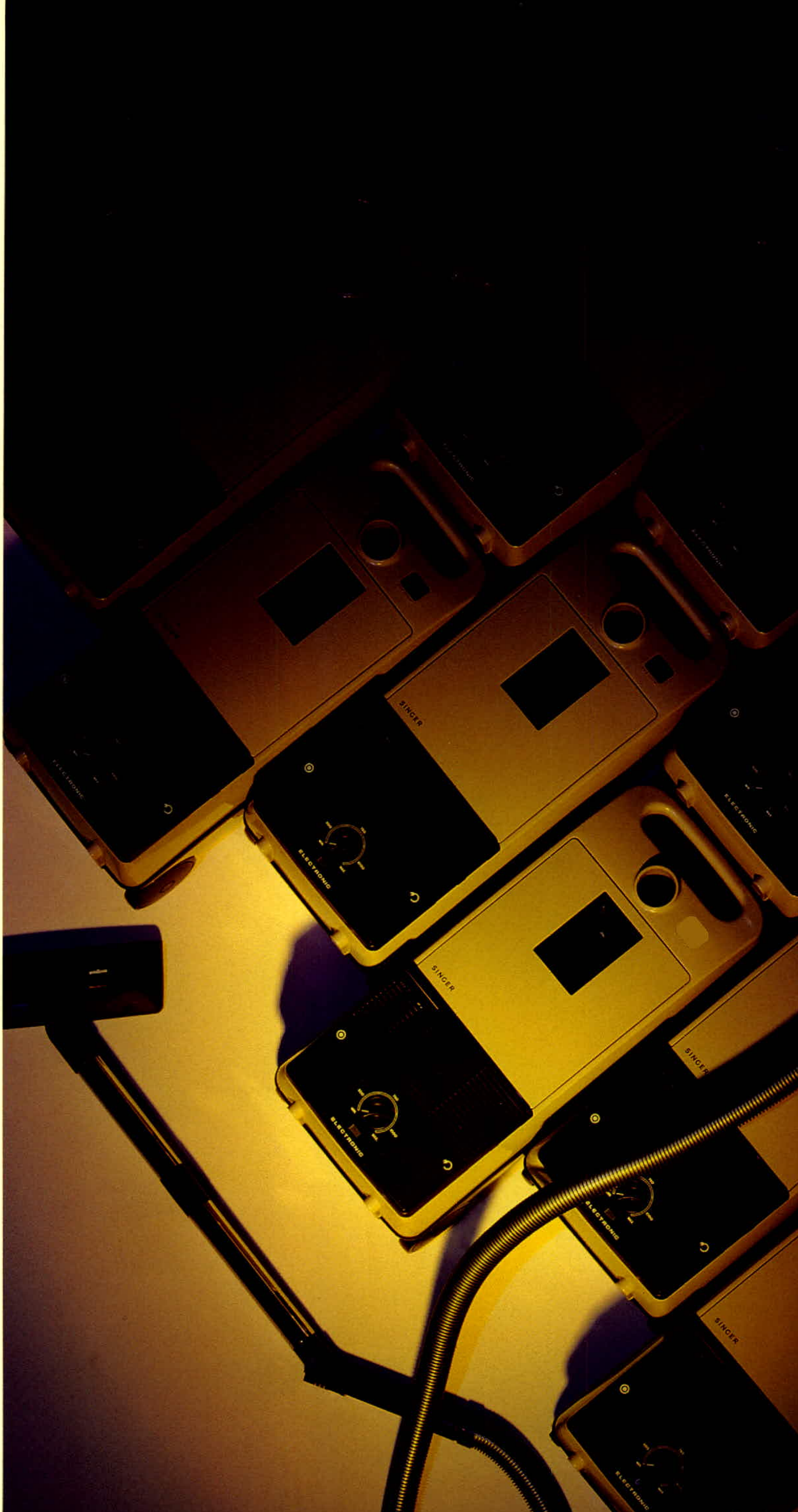
Manufacturing Restructuring

Our manufacturing facilities are being restructured to meet the realities of the market and regional needs. In this area, the most notable restructuring in 1989 was the disposition of the Monza, Italy plant which had been a financial drain on the company for several years. However, we continue to source high-end products from Monza.

Our manufacturing facilities are being restructured to meet the realities of the market and regional needs.

In the fall of 1990, Singer will introduce a new line of small appliances.

Right: Singer Vacuum Cleaners



We are continuing to work towards joint ventures for manufacturing in Malaysia and the U.S.S.R. In the U.S.S.R., our negotiations for provision of technology and machinery for a needle factory and a sewing machine factory are reaching final stages. In China alone, the market for sewing machines is estimated at eight million machines per year. Fortunately, our China-based manufacturing operation has moved into a profitable position and was producing 150,000 machines annually by the end of 1989. Also, the first Singer zig-zag machine was manufactured in China in May, 1990. Our investment in research and development will lead to the future introduction of much-needed new models and new technology. However, this process is lengthy and the full effects of the investment will begin to show results starting in 1991. While the R & D thrust is concentrated in our Japanese factory, Canada is providing leadership in advanced microelectronics technology developed while designing microcomputers. During 1990, we will start manufacturing refrigerators and washing machines in Pakistan and refrigerators at a new plant in India. Quality and Singer have been synonymous over the last 139 years and we continue to maintain quality at the highest possible standards.

Classic Singer Sewing Machines, now manufactured in China, are in high demand.

The new Quantum Sewing Machine has many advanced features and is the latest addition to the Singer product line.

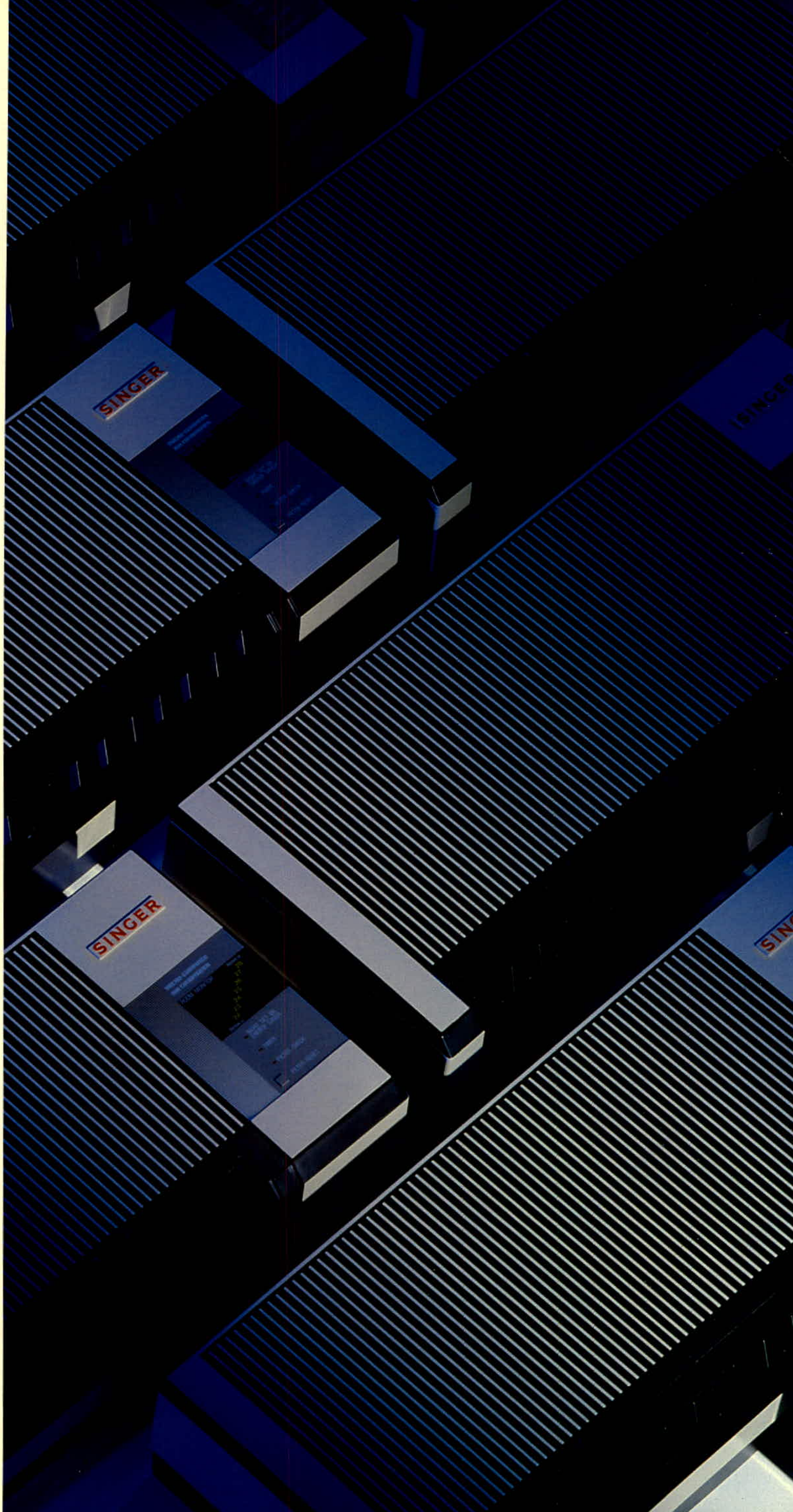
New Products

It was a good year for new product introductions. The new Quantum sewing machine featuring 190 built-in stitches, LCD displays and many new convenient features was added to the line. A new steam press was also added which has enjoyed a highly successful launch. We also introduced exciting new lines of furniture, sourced by Singer, to our stores in 1989. Outside of the U.S., furniture is completely synonymous with Singer and in many countries, we are the leading nationwide chain to sell furniture. We pioneered ready-to-assemble units in many countries including Brazil, Mexico, Thailand, Philippines and the Caribbean where we are the leader. These are all sold with the Singer label through instalment plans. Our new products were all supported by increased local advertising which is helping rebuild our image and the brand awareness of Singer.

In many countries, furniture is a large and profitable product line.

Our phased approach enables us to manufacture Singer products for distribution through our retail outlets.

Right: Singer Air Conditioners



In the autumn of 1990, we plan to introduce a new line of home electronic durables which will be accompanied by a major advertising launch. To this end, we announced in April 1990 our plans to acquire 20 per cent of Tomei Industrial (Holdings) Limited, a strategic investment after a thorough search for possible Hong Kong partners. Tomei is engaged in the design and manufacturing of consumer audio products.

Consumers Distributing (U.S.) and Singer U.S.A.

By the end of 1989, we began the operational merger of all of Singer's consumer sewing operations in the U.S.A. into the Consumers headquarters building in Edison, New Jersey. This was completed on March 2, 1990, and has resulted in significant operational savings in overheads. More importantly, we opened our first Singer sewing "stores within stores" in Consumers' outlets. This added substantially to Consumers' margins, a trend that will continue as we add more Singer products to Consumers' retail catalogue outlets. Singer is returning to the retail business in the United States.

Consumers forms the base for Singer's retail business in the United States.

Singer Europe

On March 15, 1990, we finalized the acquisition of the Sewing and Consumer Products Divisions of European Home Products, PLC (EHP) with operations in 12 countries in Europe. This not only increased the total of Semi-Tech's revenue base by 25 per cent, but more importantly, it increased Singer's global sourcing capabilities to a combined $1.8 billion. Two significant benefits accrued from this acquisition. The first is the opening of an enormous opportunity in eastern Europe, both for consumer durables and sewing machines, the latter being estimated at a potential of five million additional machines per year. Secondly, Singer is now well positioned in Europe as the continent moves towards becoming a unified force of 350 million people in 1992.

In Europe, Singer products are marketed through sales channels trading as Singer, Ivarte, Excel, Idee, and Simaco.

Application of Technology

An international communications network is being implemented for Singer.

The Singer Company is working closely with STM Systems Corp. to deploy advanced information technology tools to automate much of the control and management processes within Singer. This is a major undertaking that has to allow for different hardware and software solutions to suit the specialized needs of each country in which we operate. We are embarking on a number of critical projects, including as a first step, an international communications network to handle voice and data, facsimile, telex, electronic mail and computer communications. This will provide timely consolidation of operating and financial results allowing for more effective management of our global operations.

Summary

Earlier in this report, we outlined the four-phased approach of our corporate strategy. Significant steps have been taken to ensure the continued success of the Semi-Tech Group in all areas of operations to further advance and support this strategy. The year ahead shows every indication of being even more promising as we embark on the beginning of the 90's with a revitalized and restructured company that is truly global in nature, and capable of competing internationally. Secure in this knowledge, we can now face the future "Together Again".

Total Solutions

STM
SYSTEMS
CORP.

Operational Highlights

STM Systems Corp. is now the fastest growing information management services company in Canada. We plan to become a major provider of such services on an international scale. **O**ur objective is to build on our reputation for service excellence and our dedication to providing clients with a competitive advantage through the application of high-value information management solutions. **T**o achieve our objective we have an aggressive expansion plan which has seen a series of acquisitions, investments in new products and services and alliances with companies sharing our goals and business principles. **A**lso contributing to the rapid growth of the company are fundamental changes in the way corporations and governments view the provision of information management services. **N**o longer is it considered essential for such services to be provided in-house. There is a definite trend to "outsourcing" in which STM Systems Corp. provides most, if not all, of a public or private sector company's information management needs. **U**sers are thus relieved of the need for capital investments in new technology, the considerable overhead involved in having in-house operations and, most importantly, the efforts of management can be concentrated on the main business activity. **S**TM Systems Corp. delivers these outsourcing services through more than 50 products and services to a client list of over 1,000 including Royal Trust, Eaton's, Crown Life, Stelco, Woodward's Ltd., The Madrid Stock Exchange, and many government departments and agencies. **S**TM Systems Corp. brings together all supporting services including electronic imaging, consulting, training, facilities management, computer processing, data capture, network communications, disaster recovery, computer networking, systems integration and applications software development services providing "Total Solutions" for better information management. **R**evenues have grown to over $200 million in fiscal 1990. Currently, there are 1,900 employees in 17 offices across Canada, including 600 serving the Canadian federal government marketplace from a newly built Systems Integration Centre in Ottawa.

Services

- Electronic Imaging
- Consulting
- Training
- Facilities Management
- Computer Processing
- Data Capture
- Network Communications
- Disaster Recovery
- Computer Networking
- Systems Integration
- Applications Software Development

Highlights for the Year

The year in review was marked with a flurry of activity as we continued to strengthen our "Total Solutions" position in the marketplace. We launched a national advertising campaign using the slogan "Total Solutions" to promote the new STM Systems Corp. name to our various publics and to increase our profile in our user community. Some of the key business highlights that took place during the year that help illustrate our commitment to providing total information management solutions are reported here chronologically.

February STM Systems Corp. and Dun and Bradstreet announce the availability in Canada of an online database listing of more than one million U.S.-based companies through STM Systems Corp.'s Wisdom offering.

March STM Systems Corp. and IBM Canada sign a marketing alliance for products and services for the securities industry. IBM Canada provides a service bureau product delivering accounting and administrative services while STM Systems Corp. is a major processor of retail orders for securities traded in Canada. STM Systems Corp. and SunGard Recovery Services, of Wayne, Pennsylvania, agree to the use of the SunGard name and trade mark by a new unit of STM Systems Corp. to offer disaster recovery services across Canada.

May STM Systems Corp. wins two European contracts: one to automate the

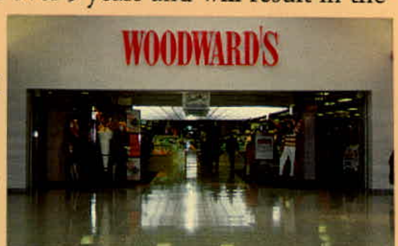
"Our move to STM Systems Corp. will reduce operating costs and result in greater flexibility in addressing Woodward's requirements for additional processing power to meet seasonal peaks."
***Patricia Fisher**, Vice-President, Information Services*
Woodward's Limited

flow of orders between member brokers of the Madrid Stock Exchange; the second is for a system in Milan to automate the trading of inter-bank deposits between the 1,200 banks in Italy. **S**TM Systems Corp. acquires Armadale Systems Inc. of Markham, Ont. The agreement represents an investment by STM Systems Corp. valued at more than $1 million. **T**he Federal Services Division of STM Systems Corp. announces plans to build a $12 million, 80,000 sq. ft. Systems

June Integration Centre in Ottawa. **S**TM Systems Corp. reaches an

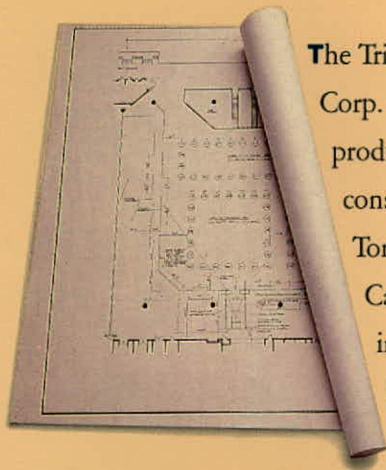
agreement to purchase NewVen Consulting Group, Inc. in Ottawa. The Professional Services and Data Entry divisions of NewVen have been consolidated with the

October Federal Services Division. **S**TM Systems Corp. wins a contract from Supply and Services Canada and Transport Canada worth a total of $6 million. **S**TM Systems Corp. and department store chain Woodward's Ltd. sign agreement to transfer Woodward's main corporate computer systems from Vancouver to the STM Systems Corp. Western Processing Centre in Calgary. **T**he outsourcing contract is valued in excess of $9 million over 5 years and will result in the doubling of STM Systems Corp.'s processing capacity in Calgary. **S**TM Systems Corp. wins a contract from Kredietbank in Brussels, Belgium, to develop a security processing system



November and customized software. **S**TM Systems Corp. and Winnipeg-based Rescom Ventures announce their intention to enter into a marketing alliance for their securities industry products and services.

"We required a fully integrated office system to meet the projected operational requirements of the Department. STM's solutions will certainly assist us in meeting our goals."
Don Lusby
Deputy Minister, Department of Finance Canada



January

The Triquetra Division of STM Systems Corp. opens new 40,000 sq. ft. production centre in Mississauga to consolidate its operations for the Toronto region. **G**eneral Electric Canada awards a two-year information processing ("outsourcing") contract to STM Systems Corp. valued at $3 million. **S**TM Systems Corp. awarded an $11.1 million contract by Finance Canada to create an integrated office computer system linking 700 professionals and support staff in this government department using high-performance microcomputer workstations and a customized local area network environment with gateways to existing mini and mainframe computer systems. **H** & R Block, Canada's largest processor of personal income tax returns, awards Triquetra Division a contract to design and install a microcomputer-based taxation software system for the company's 900-plus offices across Canada.

"STM's performance in our technological partnership was of the highest standard. What we demanded was an extremely high quality system and they produced on schedule a state-of-the-art software product that fulfilled our requirements."
Ugo A. Assi
Managing Director, SIA SpA

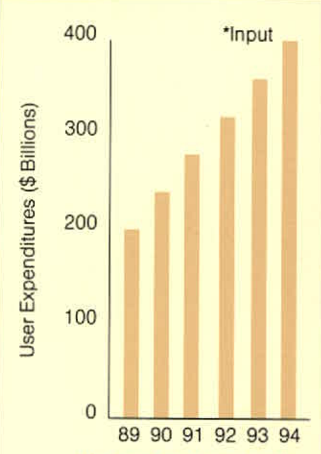
Beginning Fiscal 1991

STM Systems Corp. has continued its aggressive growth strategy into the current year. In March, we announced the signing of an agreement to acquire Manitoba Data Services (MDS) from the Manitoba government, in a deal estimated to be in excess of $150 million. This provides a strong processing base of $32 million per year in western Canada from which to market our products and services. MDS has a strong client base including most departments of the Manitoba government as well as Manitoba Hydro and the Manitoba Public Insurance Corporation. In the midst of this expansion, STM Systems Corp. successfully completed the largest and most complex migration of computer systems ever attempted in Canada, as 13 mainframe computer systems and six minicomputer systems for more than 20 federal government departments, agencies and government-funded organizations were "migrated" to our new Systems Integration Centre in Ottawa without any interruption in service.

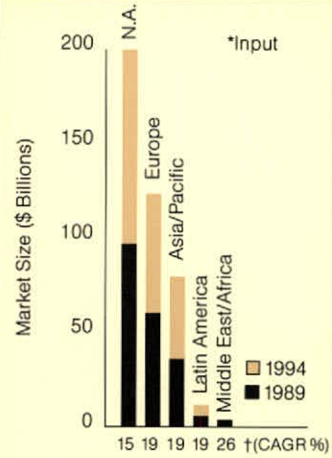
"By combining Computer Output Microfiche with electronic printing, STM Systems Corp. provides us with a total package for all our electronic imaging requirements."
Harry Cartner
Vice-President, Operations, Trans Canada Options Inc.

Looking to the Future...

STM Systems Corp. plans to expand beyond our traditional markets in North America, into western Europe, and the Pacific Rim. We are looking at opportunities in developing nations who are seeking to capitalize on their rapidly growing economies and to nations in eastern Europe now attempting to modernize. **T**his worldwide demand for information management technology services, together with a growing need in the industrialized nations for ever-more sophisticated solutions, will offer unlimited opportunities in the 1990s and beyond. Our mandate is to fully exploit these opportunities, supported by four key business strategies: **1.** attain a critical mass of $1 billion in sales required to compete internationally; **2.** be recognized as the leading marketer of "Total Solutions" for better information management; **3.** achieve this growth by a combination of internal growth and by strategic acquisitions to gain market share and to form alliances with strong business partners who share our goals and business principles; **4.** continue to be at the leading edge of technology. **T**his plan will be aided by our association with the Semi-Tech Group of Companies including the Singer organization, whose operations in more than 100 countries worldwide places STM Systems Corp. in a unique position to enter these markets.

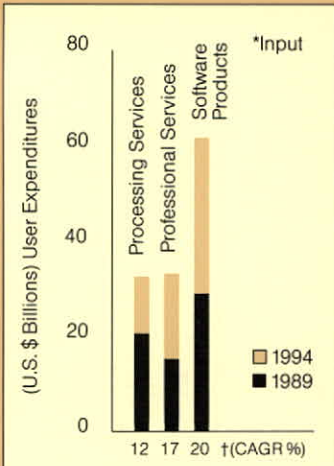


Worldwide Information Services Market 1989-1994



Worldwide Information Services Market by Region 1989-1994

STM Systems Corp. plans to expand beyond the traditional markets of North America, into western Europe, and the Pacific Rim.

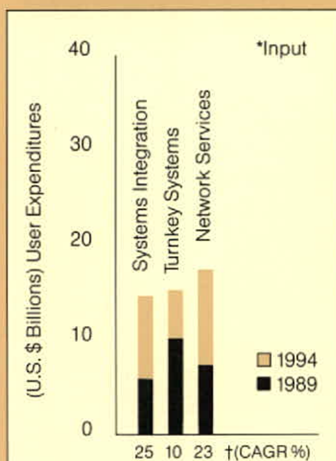


Information Services Industry Forecast by Delivery Modes 1989-1994

Our relationship with Singer has already resulted in a major project to design sophisticated information management technology systems to achieve greater efficiencies demanded by Singer for the next century.

Summary

STM Systems Corp. is entering a new and exciting era. We have ambitious plans, imaginative and professional employees, the resources of the Semi-Tech Group of Companies, and the firm conviction that our vision of becoming a global information management technology services company will become reality.



Information Services Industry Forecast by Delivery Modes 1989-1994

† Compound Average Growth Rate
* Graphs provided by INPUT, a research consulting firm based in Mountain View, California

Financial Review

International Semi-Tech Microelectronics Inc. ("ISTM" or the "Company") is a Canadian-based multi-national company, with interests in the information technology services industry principally through STM Systems Corp. ("STM Systems"), and in the retail and distribution of sewing products, consumer electronics, and durable goods through Semi-Tech Microelectronics (Far East) Limited ("STMFE"). During 1990, the Company's investment in STMFE was reduced from 51% of the outstanding common shares of STMFE to 41%. This was as a result of the issue of further common shares by STMFE. Pursuant to this reduced investment, the Company accounted for STMFE on an equity basis in 1990, as compared to a consolidated basis in 1989. To facilitate comparison with fiscal 1989, the following table presents summary financial information by business segment for the years ended January 31, 1990 and 1989:

	1990		1989	
	(in thousands)			
	Group Total	Pro-rata Interest	Group Total	Pro-rata Interest
Retail & Distribution				
Revenue	$1,418,516	$581,591	$260,321	$132,764
Income before tax	$ 36,280	$ 13,590	$ 7,651	$ 3,902
Cashflow from operations	$ 101,093	$ 41,448	$ 17,918	$ 9,138
Total assets	$ 949,343	$134,162	$224,996	$114,748
Information Technology				
Revenue	$ 210,890	$210,890	$144,637	$144,637
Income before tax	$ 5,471	$ 5,471	$ 10,811	$ 10,811
Cashflow from operations	$ 17,123	$ 17,123	$ 20,247	$ 20,247
Total assets	$ 91,083	$ 91,083	$ 82,206	$ 82,206

Results of Operations

Retail and Distribution

STMFE and its subsidiaries, SSMC Inc. ("SSMC"), a multi-national company, and Consumers Distributing Inc. ("Consumers"), a U.S. company, form the retail and distribution business of ISTM. SSMC was acquired April 15, 1989 and therefore the fiscal 1990 financial results reflect only 8½ months of SSMC activity. Consumers, acquired in May 1988, is reflected for 12 and 8 months of activity for fiscal years 1990 and 1989, respectively. STMFE revenues increased in fiscal 1990 over the comparable period in fiscal 1989 by approximately 187%. The significant factor in this change was the acquisition of SSMC Inc. which generated approximately US$360 million of additional revenue to the account of STMFE. Within SSMC, revenue increases were seen in Latin America and Asian countries of US$42 million and US$21 million, respectively. During fiscal 1990, in Latin America, a group of company owned stores was established in Brazil, resulting in increased revenue, and in Mexico a stronger economy resulted in increased volume sales. The continuing growth of Asian economies, where STMFE is well positioned for the future, should continue to benefit ISTM. Revenue decreases of US$33 million in Europe, Africa and the Middle East offset growth elsewhere, reflecting lower sales to distributors in Europe, excluding France. During March of 1990, ISTM acquired certain divisions of European Home Products PLC, a former European distributor. The company's performance in Europe is expected to become a stronger and more significant contributor to earnings as former distributor profits now remain in the Semi-Tech Group, and as the European market expands as a result of recent political events. North American market revenues, both from Consumers and SSMC, reflect a very competitive marketplace and a softening economy as volumes and revenues remain relatively flat. Consumers revenue in fiscal 1990 was down US$17 million over the prior year, primarily due to the soft retail market throughout the Northeastern United States. Certain initiatives have been undertaken with SSMC that will improve Consumers' performance over the long term. Volume sales of sewing related products, currently representing approximately half of total revenues, remains relatively constant. Increases in revenue have resulted primarily from price increases on sewing machines and more significantly from the continuing shift to other consumer related product lines. This trend is expected to continue as STMFE develops new sources of consumer electronics and durables, utilizing the new economies of scale made possible by working with other companies in the Semi-Tech Group. In fiscal 1990, the continued Brazilian inflation, in excess of its currency devaluation, resulted in higher manufacturing costs for the Brazilian factories. Brazilian government economic measures, introduced in March of 1990 to combat hyper-inflation, had a temporary adverse affect on the domestic sales of the Brazilian operation, but had little impact on the operation's export sales. The Brazilian operation, like all Brazilian businesses, is still experiencing the liquidity squeeze brought on by the recent economic measures. This is expected to continue at least for the short run, however, due to a high proportion of export sales, the situation is manageable. Inflation has not had a significant impact on other manufacturing locations. The effect of inflation on most marketing operations is largely mitigated by pricing actions. STMFE's interest expense, net of related foreign exchange adjustments, increased by $14 million. This increase is the effect of higher levels of borrowing largely related to financing the SSMC acquisition related expenses and debt assumed on the acquisition. STMFE net income increased significantly as a result of the acquisition of SSMC. Within SSMC itself, a significant year over year improvement in operating results (before acquisition related charges) was realized due to significant reductions of management overheads and the rationalization of operations that occurred during fiscal 1990. The Company is taking various actions to improve operating results through its restructuring program. Product sourcing economies of scale, particularly in the consumer electronics and durables product lines, are being developed by the formation of a Hong Kong based central sourcing operation. Similarly the administrative operations of SSMC and Consumers, both located in Edison, New Jersey, have now been combined to reduce administration overheads for both companies. The company has disposed of, and will continue to dispose of, non-strategic assets, and reduce expenditures in areas which are inconsistent with long term strategies.

Information Technology

For fiscal 1990, STM Systems results of operations include the former businesses of Datacrown and Canada Systems Group ("CSG") for the full year, compared to eleven months of Datacrown operations and nine months of CSG in the fiscal period ended January 31, 1989. Revenue growth during fiscal 1990, approximately 16%, was lead by increased service revenues from the Canadian government. Operating income for fiscal 1990 declined compared with the 1989 fiscal year, continuing the market trend of shifting from high margin shared processing to lower margin facilities management of computer systems. Computer processing services, in total, still accounted for over 50% of STM Systems revenues in 1990. STM Systems also made strategic investments in fiscal 1990 which will better position it for improved longer term earnings and better margin services. These investments resulted in numerous one-time costs to acquire new businesses and products and to consolidate its operations. During the current year, STM Systems incurred start-up costs of approximately $1.5 million in a joint venture with SunGard Recovery Services Inc., a U.S. company, to provide comprehensive disaster recovery services to the Canadian market. STM Systems anticipates that revenues related to this service will continue to grow as disaster recovery planning attains higher visibility in the future. As a result of a new Ontario Employer Health Tax, which became effective January 1, 1990, Canadian operations employee-related expenses are expected to increase by almost $1 million in fiscal 1991. This additional expense is expected to be funded through normal operating income. In fiscal 1990, STM Systems made several acquisitions which complemented its business sector portfolio. The first among them was the acquisition of Armadale Systems Inc. which has recognized industry experience in relational database design and systems integration and offers a range of services to the health care industry. In addition, NewVen Consulting and the Ottawa branch of Computertime Network Corporation were acquired to bolster the professional services business. These acquisitions will preserve STM Systems' presence as a market leader in systems integration which is the major growth segment of the information technology industry. One-time costs were also incurred as STM Systems took steps to consolidate the locations of its business units to improve efficiency and reduce expenses. It has recently moved into a state-of-the-art systems integration centre in Ottawa. This relocation of the computer equipment and operations of an entire data centre has occurred without any disruption in customer service. The move will result in expenses of over $1 million in fiscal 1991. In addition, a division of the Toronto operation centralized its operations from four locations to one new facility with double the production capacity. Interest expense of STM Systems increased during fiscal 1990 due to the full year effects of the financing of the CSG acquisition.

Financial Condition

Retail & Distribution

In connection with the acquisition of SSMC, during October of 1989, STMFE borrowed US$105 million under a credit agreement with certain lenders, replacing the original US$140 million bridge loan drawn upon in April of 1989. This facility is secured by STMFE's investment in the common shares of SSMC. 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. It is expected that proceeds from the sale of assets of SSMC will be used to repay the first two segments of this debt as they become due. Currently, interest expense related to this debt has been funded by equity issues, bank borrowings and internal funds. Each country's operations are generally financed locally with short term financing, long-term debt, and certain forms of asset based financing. Such financing is guaranteed by STMFE or it's subsidiaries, or with letters of credit when required. STMFE's cashflow from operations improved significantly with the addition of SSMC. Within SSMC itself, cashflows from operations also improved year over year. However, a decrease in working capital was generally caused by expenses related to the SSMC merger, restructuring and asset sales. Reduction in inventories and accounts receivable in fiscal 1990 show the results of efforts by the company's new management team to better manage assets. In the short term, cashflow from operating activities and working capital are expected to remain at current levels as STMFE continues to restructure its operations. Expected cash provided by the sale of non-strategic assets under the restructuring program is to be used to repay a portion of the STMFE debt assumed under the SSMC acquisition, and to finance capital improvement and expansion throughout the operations. Once the restructuring program is completed, cashflow from operations can be directed more towards improving long term liquidity. During fiscal 1990 STMFE made several equity issues totalling approximately $137 million. In June of 1990, STMFE announced a further $124 million equity issue subject to certain approvals. In addition, STMFE is considering other options such as the issue of further equity and the sale of further interests in subsidiaries of the STMFE. As the last step in the acquiring 100% ownership of SSMC, approximately 2.2 million outstanding SSMC common shares were converted to approximately 2.2 million shares 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, if available. As of June, 1990, 334,211 of these preferred shares have been offered by Bicoastal Corporation ("Bicoastal") for redemption as settlement of a Note Receivable. This Note Receivable represents a portion of the total settlement on a Promissory Note of US$44.6 million due to SSMC by Bicoastal on behalf of a Bicoastal affiliate. Bicoastal has filed for protection under Chapter 11 and therefore this settlement is subject to approval of the Bankruptcy Court. During December of 1989, ISTM entered into an agreement to acquire the sewing and consumer durable businesses (the "Business") of European Home Products PLC. The acquisition was completed March 15, 1990. The gross consideration of 47 million pounds(UK) is to be payable by cash and settlement of intercompany receivables owed the Business, subject to adjustments to the net asset value of the Business. The net asset value is to be reviewed by the auditors of both parties and has not been finally determined. ISTM had also entered into an agreement with STMFE allowing STMFE to acquire a 100% interest in the Business within two years. As of June, 1990, STMFE exercised this right and therefore the Business will be transferred to STMFE at cost plus expenses incurred on the acquisition. The funding for this acquisition is to be derived from external debt secured by the investment acquired and internal funds. The debt assumed on this acquisition is expected to be serviced from funds generated from operations.

Information Technology

Working capital, excluding bank indebtedness and the current portion of long-term debt, increased primarily due to an increase in accounts receivable which was partially offset by increases in accounts payable, accrued liabilities and income taxes payable. The increase in receivables reflected the revenue growth STM Systems generated in fiscal 1990, major systems integration sales at year-end and a larger percentage of international receivables which require longer collection periods. During fiscal 1990, STM Systems capital expenditures totalled approximately $17.3 million. These investments were financed by $5.1 million of operating leases and $4.1 million of long-term debt, with the balance funded by operating cash and bank borrowings. Capital investments of $10.2 million are planned for STM Systems for fiscal 1991, including $7.8 million of computer equipment and software. STM Systems plans to utilize a combination of long term debt and operating leases in addition to cash flow from operations to fund these expenditures. STM Systems is also currently evaluating the acquisition of several companies in the computer services industry and, on March 15, 1990, has entered into an agreement to purchase Manitoba Data Services ("MDS"), a Canadian company, for $18.3 million. MDS has revenues of approximately $33 million per year and has a client base which includes most departments of the Manitoba government. The MDS acquisition, expected to close in June 1990, will be funded primarily through bank financing and through internal funds in the form of invested equity in MDS.

Corporate

In July, 1989, ISTM issued 200 Series A Preferred shares with a redemption price of US$50,000 per share, which participate ratably in dividends declared on ISTM common shares. These shares are redeemable at any time, subject to no less than 100 shares being redeemed by March 1992 and the remaining 100 being redeemed by March 1993. ISTM also issued $17.9 million of common shares through a private placement in May of 1989. These funds were primarily used for investment in STMFE and related acquisitions. In November of 1989, ISTM issued $35.0 million of 10% convertible subordinated debentures, due in 1999. The debentures are convertible to ISTM common shares at a rate of 100 shares per $1,000 of principle any time prior to the debenture due date. The Company may call the debentures, under certain specific conditions, at a premium any time after November, 1991. Interest is currently financed by internal funds. These funds have also been primarily used for investment in STMFE and related acquisitions. Through its wholly owned subsidiary, STM Developments, the Company invested $6.6 million in the acquisition of land and the construction of an Ottawa Computer facility. Construction was completed in 1990 with the official opening on May 28, 1990. This facility was constructed to accommodate the growth of the federal government services business of the STM Systems. This investment has been funded by a construction loan which is to be replaced with a mortgage after completion of the project.

Other items

The Semi-Tech Group and its related operations have unused operating lines of credit available as of April 30, 1990 of approximately $58 million. During February of 1990, ISTM and Berjaya Corporation (Malaysia) Berhad ("Berjaya"), a shareholder of STMFE, caused an agreement to be entered into under which 879327 Ontario inc. (the "Purchaser") was to acquire, for the benefit of Berjaya and ISTM, Consumers Distributing Company Limited ("CDCL"), a Canadian company, from Provigo Inc. for approximately $165 million. Berjaya was to hold 81% of CDCL and ISTM 19% with an option to increase its interest to 49.9%. In April, 1990, ISTM and Berjaya caused the CDCL purchase agreement to be terminated for cause in accordance with its terms. ISTM and the Purchaser thereupon commenced legal action in the Supreme Court of Ontario seeking damages related to this matter. Provigo Inc. has filed a motion within this action asking the court to require a closing of the CDCL purchase agreement. Should the CDCL purchase agreement be deemed to be effective by the court, and ISTM be unsuccessful in its bid to terminate the agreement, the Company will be obligated to fund its share, 19%, of the purchase price, (as determined by an independent arbitrator pursuant to the CDCL purchase agreement), as well as, possibly, its share of any interest and damages which may arise pursuant to the agreement or subsequent claims. Funding, should it be required would be raised through additional debt issues, equity issues and/or general funds. As of this date, the outcome of ISTM's claim and the Provigo Inc. motion are not determinable; however management believes that the result of its claims will be favourable and that Provigo Inc. will not be successful in its attempt to require a closing of the CDCL purchase agreement. During February, 1990, STM Systems entered into an agreement to acquire the common shares of a software sales and development company, Computertime Network Corporation ("CNC") of Montreal, Canada. Consideration was to be in the form of a share exchange valued at approximately $8 million. During May of 1990, CNC, and two principal shareholders, commenced legal action against ISTM and STM Systems, alleging a breach of contractual obligations relating to the proposed acquisition. Damages in the amount of approximately $0.3 million and $7.1 million, together with interest, on behalf of CNC and the principal shareholders, respectively, are being sought. Although the outcome of this matter is not determinable at the present time, management does not believe that CNC's claims have merit and has engaged legal counsel to defend the action.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of International Semi-Tech Microelectronics Inc. as at January 31, 1990 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The consolidated financial statements as at January 31, 1989 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those consolidated statements in their report dated June 23, 1989.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada
June 15, 1990

International Semi-Tech Microelectronics Inc.

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

As at January 31, 1990

Assets		1990		1989
		(in thousands)		
Current assets:				
Cash	$	-	$	25,311
Accounts receivable		38,628		40,886
Due from affiliates		28,788		9,463
Due from related parties		-		3,865
Inventories		703		106,798
Prepaid expenses and deposits		2,582		23,385
Deferred income taxes		206		2,578
		70,907		212,286
Investment in affiliate		97,930		859
Fixed assets		51,888		73,939
Goodwill		12,476		18,599
Other		13,235		23,173
		175,529		116,570
	$	246,436	$	328,856

Liabilities and Shareholders' Equity		1990		1989
Current liabilities:				
Bank loans and indebtedness	$	25,038	$	50,680
Accounts payable and accrued liabilities		37,208		111,684
Current portion of long-term debt		3,805		12,234
Dividend payable on common shares by subsidiary to minority interest		-		1,850
Deferred revenue		3,824		4,497
Income taxes payable		5,175		5,716
		75,050		186,661
Long-term debt		55,069		54,843
Deferred income taxes		1,318		1,385
Preferred shares issued by subsidiary		-		11,334
Convertible subordinated debentures		35,000		-
Minority interest		-		38,076
Shareholders' equity:				
Capital stock		38,675		9,197
Contributed surplus		461		461
Cumulative translation adjustment		(2,393)		(2,976)
Retained earnings		43,256		29,875
		79,999		36,557
	$	246,436	$	328,856

(See accompanying notes)

On behalf of the Board:

Director

Director

International Semi-Tech Microelectronics Inc.

(Incorporated under the laws of Ontario)

Consolidated Statement of Income and Retained Earnings

Year Ended January 31, 1990

		1990		1989
		(in thousands)		
Income:				
Revenue from operations	$	212,725	$	404,958
Equity in earnings of affiliate		13,590		–
Gain on shares issued by affiliate		2,245		5,148
		228,560		410,106
Expenses:				
Cost of sales and operating expenses		204,650		389,626
Interest expense		7,086		9,263
		211,736		398,889
Income before income taxes and minority interest		16,824		11,217
Income taxes		(3,443)		(5,715)
Minority interest		–		980
Net income for the year		13,381		6,482
Retained earnings, beginning of year		29,875		23,393
Retained earnings, end of year	$	43,256	$	29,875
Earnings per share (in dollars):				
Basic –	$	1.11	$	0.62
Fully diluted -	$	1.06	$	0.60

(See accompanying notes)

International Semi-Tech Microelectronics Inc.

(Incorporated under the laws of Ontario)

Consolidated Statement of Changes In Financial Position

Year Ended January 31, 1990

		1990		1989
		(in thousands)		
Cash provided by (used in):				
Operating activities –				
Net income for the year	$	13,381	$	6,482
Add (deduct) the undernoted –				
Depreciation and amortization		13,853		16,845
Gain on shares issued by affiliate		(2,245)		(5,148)
Earnings in excess of dividends from affiliate		(8,568)		-
Deferred income taxes		1,534		573
Pension expense		1,453		-
Minority interest		-		(980)
		19,408		17,772
Net decrease (increase) in non-cash working capital balances related to operations		4,088		(7,214)
		23,496		10,558
Financing activities –				
Increase in long term debt		50,252		59,485
Repayment of long term debt		(6,502)		(15,023)
Net proceeds on equity issued		29,478		-
Net proceeds on equity issued by affiliate		-		43,420
		73,228		87,882
Investment activities –				
Purchase of fixed assets and purchased software		(19,737)		(21,612)
Proceeds on sale of fixed assets		190		14,152
Sale of investments		-		3,525
Investment in affiliate		(36,260)		-
Decrease (increase) in long-term receivable		224		(11,240)
Increase in advances to affiliates		(42,702)		(9,463)
Decrease (increase) in amounts due from related parties		3,865		(3,865)
Increase in other assets		(1,193)		-
Acquisition of operating companies, net of cash		(780)		(119,673)
		(96,393)		(148,176)
Increase (decrease) in cash		331		(49,736)
Cash (bank indebtedness), beginning of year		(25,369)		24,367
Bank indebtedness, end of year	$	(25,038)	$	(25,369)
Cash (bank indebtedness) is represented by:				
Cash		–		25,311
Bank loans and indebtedness		(25,038)		(50,680)
	$	(25,038)	$	(25,369)

(See accompanying notes)

International Semi-Tech Microelectronics Inc. ("ISTM" or the "Company") is a Canadian-based multi-national company, with principal interests in the information technology services industry through STM Systems Corp. ("STM Systems"), and the retail and distribution of consumer electronics and durable goods through Semi-Tech Microelectronics (Far East) Limited ("STMFE"), a public company listed on the Hong Kong stock exchange.

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) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Investments in which the Company has significant influence are accounted for using the equity method.

(ii) Investment in STMFE

During the year, STMFE issued shares of its common stock to third parties thereby decreasing the Company's ownership percentage in this subsidiary to approximately 41% (1989-51%). Pursuant to this reduced investment, STMFE has been accounted for on the equity basis in fiscal 1990. Accordingly, the financial position and results of operations of STMFE have not been reflected on a consolidated basis in the current year.

(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 governments grants and credits. Equipment that is dedicated exclusively to a specific customer is depreciated over the term of the contract with that customer. All other assets are depreciated and amortized on a straight-line basis over their estimated useful lives as follows:

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

(d) Goodwill

Goodwill is recorded at cost and is amortized on a straight-line basis over a period of forty years.

(e) Pension costs and obligations

STM Systems, a subsidiary of the Company, has a defined contribution pension plan that covers substantially all of its employees. Under this plan, the Company is required to contribute a fixed percentage of its members' salaries. The employees are not required to contribute. Employee vesting of contributions made on their behalf occurs after two years of employment. The pension plan has an accumulated surplus. This surplus is being amortized in amounts that are required to fund the annual pension expense, net of investment income earned on the surplus.

(f) Property under capital leases and amortization

Property acquired under leases, which substantially transfer all the benefits and risks of ownership to the lessee, are accounted for as the acquisition of an asset and the assumption of a related liability. Amortization is provided on a straight-line basis over their estimated useful lives.

(g) Foreign currency translation

STMFE 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. Foreign currency transactions are translated at exchange rates prevailing at the date of the transaction. Translation gains and losses are reflected in consolidated net income for the year.

(h) Revenue recognition

Revenue from service contracts is recognized as services are rendered. Deferred revenue represents billings in excess of revenue recognized to date.

(i) 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.

(j) 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.

(k) 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 year) and the funds received were invested at an annual rate of 10% (1989-11%).

2. Acquisitions

During the year STM Systems acquired the assets of the following information technology service companies: Armadale Systems Inc. (May 30, 1989), NewVen Consulting Group Inc. (June 30, 1989) and the Ottawa Consulting Services division of Computertime Network Corporation (October 1, 1989). The purchase price paid for Canada Systems Group was subject to an adjustment in the current year and the proceeds received of $1,500,000 were applied to reduce goodwill. During fiscal 1989, STM Systems acquired the assets of the Information Network services division of Crowntek Inc. (March 1, 1988) and all the outstanding shares of Canada Systems Group Limited (April 30, 1988). On May 20, 1988, STMFE acquired the assets of the United States East Coast operations of Consumers Distributing Company Limited. These acquisitions have been accounted for using the purchase method of accounting and the results of operations are included in the consolidated financial statements from the acquisition dates. The net assets acquired by the Company and the financing of these acquisitions are summarized below (in thousands):

	1990	1989
Working capital	$ 400	$ 41,407
Fixed assets	413	70,482
Pension surplus	–	7,900
Goodwill	–	14,607
Other	–	7,400
Liabilities assumed	(33)	(15,942)
	$ 780	$125,854
Financed by:		
Cash	$ 780	$ 76,524
Issue of preferred shares	–	12,330
Mortgages	–	19,000
Debenture	–	18,000
	$ 780	$125,854

Also during fiscal 1990, STMFE acquired effectively 100% ownership of SSMC Inc. (April 15, 1989) for consideration of approximately US$300 million.

3. Fixed Assets

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

	1990	1989
Land and buildings	$27,288	$20,917
Machinery and equipment	33,182	43,975
Other equipment	4,963	4,511
Furniture and fixtures	4,162	5,299
Leasehold improvements	3,490	13,465
	73,085	88,167
Accumulated depreciation and amortization	(21,197)	(14,228)
	$51,888	$73,939

Included in machinery and equipment are capitalized leases for equipment with a cost of $12,570,000 (1989-$13,687,000) and accumulated amortization of $5,982,000 (1989-$3,827,000).

4. Other assets

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

	1990	1989
Pension surplus	$ 5,615	$ 7,683
Purchased software	2,754	2,936
Deferred income taxes	2,132	3,026
Part VII tax recoverable	1,208	1,208
Notes receivable	214	7,690
Deferred financing charges	1,112	191
Other	200	439
	$13,235	$23,173

5. Bank indebtedness

The parent Company and a subsidiary have general security agreements pledging all assets (other than real property and its investment in shares of STMFE), 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, all of which is held by subsidiaries of the Company, consists of (in thousands):

	1990	1989
Canadian		
Mortgages, bearing interest at mortgage rates ranging from 11.5% to 14% due through September 1993	$21,241	$23,365
Construction loan, bearing interest at bankers' prime rate plus 1/2% due June 15, 1990	6,555	–
Subordinated debenture, unsecured, bearing interest at 12% due January 1998	18,000	18,000
Bridge loan, bearing interest at prime rate plus 1/2% due May 1991	4,500	–
Term loan, bearing interest at bankers' prime rate plus 1% due May 1991	781	1,221
Other loans	438	110
Obligations under capital leases	7,359	7,761
	$58,874	$50,457
STMFE consolidated in 1989		
Term loans, HK$96,000	–	14,563
Obligations under capital lease US$1,738	–	2,057
	–	$16,620
	58,874	67,077
Less: current portion	(3,805)	(12,234)
	$55,069	$54,843

The construction loan of $6,555,000 is currently being renegotiated with the intent to replace it with a conventional mortgage at an interest rate of 13.2% and an initial term of three years, maturing July of 1993. The Company and its subsidiaries have pledged as collateral for the mortgages, and construction loan, first and second charges over the land and buildings as well as an assignment of the land lease. The Canadian term loan is secured by a general security agreement covering all assets of STM Systems. The terms of the above debt include certain restrictive covenants with respect to the maintenance of specified working capital levels, financings and distributions. During the 1990 fiscal year, the Company was not in compliance with two financial reporting requirements for which written waivers have been received from the lending institutions. Interest expense related to long-term debt during the year ended January 31, 1990 was $7,383,000 (1989-$4,403,000) of which $154,000 has been capitalized. Principal repayments over the next five fiscal years, excluding capital leases, are: 1991- $928,000; 1992-$11,773,000; 1993-$3,912,000; 1994-$16,902,000 and 1995-nil.

(b) Obligations under capital and operating leases

The following is a schedule by year of future minimum lease payments together with the balance of the obligations under leases (in thousands):

Fiscal Year	Capital Leases	Operating Leases
1991	$3,526	$25,920
1992	2,733	17,274
1993	1,555	8,771
1994	581	5,488
1995	131	3,046
Thereafter	—	6,344
	8,526	$66,843
Amount representing interest	(1,167)	—
	7,359	$66,843
Less: current portion	(2,877)	
	$4,482	

7. Convertible Subordinated Debentures

In November of 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 $583,000.

8. Income taxes and related contingencies

(a) Provision for income taxes

The following summarizes the Company's income tax provisions, including elements of deferred income taxes, on earnings of its Canadian and foreign operations (in thousands):

	1990	1989
Canadian		
Current income taxes	$1,909	$3,004
Deferred income taxes	1,534	2,711
	3,443	5,715
STMFE consolidated in 1989:		
Current Income taxes	—	2,138
Deferred income taxes	—	(2,138)
Total: Current income taxes	1,909	5,142
Deferred income taxes	1,534	573
	$3,443	$5,715

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

	1990	1989
Canadian corporate tax rate	44.3%	47.3%
Income taxes at the Canadian rate	$ 7,453	$ 5,306
Equity in earnings of affiliate	(6,020)	–
Non-taxable gain on dilution	(994)	(2,435)
Losses of subsidiaries not tax effected	2,044	2,029
Other	960	815
Provision for income taxes	$ 3,443	$ 5,715

(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. It is the Company's position that STM Corp. has incurred, and 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 including interest under Part VIII of the Act. During the year, Revenue Canada, Taxation issued assessments to STM Corp. and a subsidiary disallowing the deductions of certain expenditures for purposes of Part VIII of the Act and assessing for the 1985 taxation year Part VIII tax and interest to the date of the assessment in the aggregate amount of approximately $13,700,000. If interest were accrued to May 31, 1990, the amount owing pursuant to the assessment would be approximately $16,000,000. 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 $7,600,000 from subsequent years which can be applied to reduce the impact of an unfavourable outcome to its objection to the assessments by $3,800,000. These amounts, however, may only be applied on a current basis and would not have the effect of reducing interest expense that was accrued. To the extent that the Company is unsuccessful in sustaining its position, a prior period adjustment will be made which will 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. Subsequent to the year, the Company has provided security, in the form of a pledge of a portion of the Company's shares of STMFE and a collateral security mortgage on a building, in respect of the amounts assessed, pending resolution of the matter. The proposal of Revenue Canada, Taxation to disallow, under Part I of the Act, the deduction of certain expenses and deductions in the aggregate amount of $1,400,000 during 1985 and 1986 has been partially resolved and the Company is expecting a reassessment of taxes and interest in due course of approximately $180,000. The Company has provided a waiver of the time limit on reassessments in connection with approximately $680,000 of 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 during the year, 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 of $1,208,000 has been recorded as a long-term receivable. The Company estimates, subject to the results of its objection to Part VIII assessments and the current review of the 1985 and 1986 tax returns of STM Corp. referred to above and based on tax returns filed for 1989 and prior years, that it and its Canadian subsidiaries have operating loss carryovers for Canadian tax purposes of $3,700,000 which expire from 1991 to 1995, unapplied expenditures on account of scientific research and experimental development of $7,600,000 which can be carried forward indefinitely and unapplied investment tax credits of $772,000 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 penalities that could be imposed by Revenue Canada, Taxation. Accordingly, no provision has been made in the accounts for these contingencies.

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):

	1990		1989	
	Number	Amount	Number	Amount
Redeemable Preferred shares	200	$11,912	–	–
Common shares	12,854,293	26,763	10,549,293	$9,197
		$38,675		$9,197

On July 18, 1989, the Company issued 200 Series A Preferred shares, with a redemption price of U.S. $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. On May 27, 1989, the Company issued 2,279,000 common shares through a private placement for aggregate proceeds of $17,936,000.

(b) Warrants:

At January 31, 1990 and 1989, 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 1990, 491,100 options were issued (1989-885,000), exercisable at prices ranging from $8.88 to $9.125, 65,000 options were cancelled at a price of $3.85 (1989-40,000), and 26,000 were exercised at prices ranging from $3.85 to $5.75 (1989-nil). At January 31, 1990, options for 1,245,100 shares (1989-845,000) were outstanding at exercise prices ranging from $3.85 to $9.125. These options expire during 1994 and 1995.

10. Related party transactions

During the year, the Company recorded management fee income of $1,685,000 (1989-$300,000) and interest income of $1,805,000 (1989-nil) from STMFE. Amounts due to or from STMFE are due on demand and bear interest at the Hong Kong prime rate and have no fixed terms of repayment.

STM Systems has been contracted to complete a systems integration project for a company of which the Company's Chairman is a director. Revenue earned on this project was $2,111,000 (1989-$502,000). Accounts receivable at year end include $1,063,000 (1989-$180,000) related to this project. The Company, together with a certain lender, has jointly and severally agreed to provide a subordinated loan of US$44,600,000 to SSMC Inc., a subsidiary of STMFE, if a note of the same value held by SSMC Inc. remains outstanding at June 30, 1990. The promissory note represents the proceeds from the sale of, and is secured by, the shares of the Singer Furniture Company. The note is also guaranteed by Bilzerian Partners Limited Partnership I, an affiliate of Bicoastal Corporation ("Bicoastal") which has filed for protection under Chapter 11 under U.S. law. On June 5, 1990, STMFE announced payment of US$25,000,000 on this note and a tentative settlement for the balance of the note with Bicoastal, subject to approval of the Bankruptcy court for Bicoastal. In addition, the Company, together with the same lender identified above, has jointly and severally agreed to guarantee a segment of a credit facility, representing US$60 million due April 1991, drawn upon by STMFE as part of STMFE financing of the SSMC Inc. acquisition.

11. Comparative information

Certain prior year balances have been reclassified to conform with the current year's presentation.

12. Subsequent events

(a) Acquisitions

European Home Products Businesses

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 of 47 million pounds(UK) was payable in cash, subject to an adjustment to the net asset value of the Business. The net asset value is to be reviewed by the auditors for both parties and has not been finally determined. The Company has entered into an agreement with STMFE allowing STMFE to acquire a 100% interest in the Business within two years. As of June 1990, STMFE exercised this right and therefore the Business will be transferred to STMFE at cost plus expenses incurred on the acquisition.

Manitoba Data Services Ltd.

On March 15, 1990, STM Systems signed an agreement to acquire all the common shares of Manitoba Data Services Ltd. ("MDS") from the Manitoba Government for $18.3 million. MDS is an information technology services company. The Manitoba government has guaranteed that from 1990 to 1994, the minimum annual revenue that MDS will earn by providing existing services to government departments and agencies will not be less than MDS 1989 revenue of $33.0 million. Terms of the purchase require STM Systems to provide initial funding of $1.0 million to invest in Manitoba information technology companies and to establish an education program in conjunction with the province's universities and colleges at an estimated five year cost of $2.0 million. STM Systems has also agreed to create 70 new jobs within 24 months of the date of closing and an additional 150 jobs in the following 24 months. STM Systems has also agreed to construct a 100,000 square foot data centre in Winnipeg within 24 months of closing. STM Systems intends to finance this acquisition primarily with bank borrowings. The acquisition is scheduled to close on or about June 30, 1990.

(b) STMFE Rights Issue

On June 5, 1990, STMFE announced a rights issue subject to certain approvals, of 1 common share for every 2 common shares currently held at a price of HK$0.60 per share.

(c) Contingencies (see also note 8(b))

Consumers Distributing Company Limited

On or about February 5, 1990, ISTM and Berjaya Corporation (Malaysia) Berhad ("Berjaya") caused an agreement to be entered into under which 879327 Ontario Inc. (the "Purchaser") was to acquire, for their benefit, Consumers Distributing Company Limited ("CDCL") from Provigo Inc. for approximately $165 million. Berjaya was to hold 81% of CDCL and ISTM 19% with an option to increase its interest to 49.9%. On or about April 27, 1990, ISTM and Berjaya caused the CDCL purchase agreement to be terminated by reason of non-fulfilment by the vendors of certain material conditions set out in the purchase agreement. ISTM and the Purchaser thereupon has commenced a legal action in the Supreme Court of Ontario seeking damages related to this matter. Provigo Inc. has filed a motion asking the court to require a closing of the CDCL purchase agreement. As of this date, the outcome of ISTM's suit and Provigo Inc's motion are not determinable; however management believes that the result of its claims will be favourable and that Provigo Inc. will not be successful in its attempt to require a closing of the CDCL purchase agreement. The amount, if any, arising from this legal action would be treated as a prior period adjustment in the financial statements.

Computertime Network Corporation

On or about February 16, 1990, STM Systems entered into an agreement to acquire the common shares of Computertime Network Corporation ("CNC") of Montreal, Canada, a company listed on the Montreal Exchange. Consideration was to be in the form of a share exchange valued at approximately $8 million. CNC is a software sales and development company specializing in Oracle based software products. On or about May 16, 1990, CNC, and two principle shareholders, commenced legal action against ISTM and STM Systems, alleging a breach of contractual obligations relating to the proposed acquisition. Damages in the amount of approximately $0.3 million and $7.1 million, together with interest, on behalf of CNC and the principle shareholders, respectively, are being sought. The management of the Company does not believe that CNC's claims have merit and has engaged counsel to defend the action. The outcome of this matter is not determinable at the present time. The amount, if any, arising from this legal action would be treated as a prior period adjustment in the financial statements.

13. Segmented information

Effective in fiscal 1990, the Company operates in one primary business, the information technology services industry, principally from one geographic area, being Canada. The Company conducts its foreign operations through its affiliate STMFE. For fiscal 1989, the operating results and identifiable assets by industry and geographic area were as follows (in thousands):

Industry Segments	Sourcing & Distribution	Systems Integration	Total
Total revenue	$257,944	$147,014	$404,958
Segment income	$ 483	$ 17,979	18,462
Corporate expenses			(3,130)
Interest expense			(9,263)
			6,069
Gain on shares issued by subsidiary			5,148
Earnings before income taxes and minority interest			$ 11,217
Identifiable assets	$205,589	$102,778	$308,367
Capital expenditures	$ 10,983	$ 10,629	$ 21,612
Depreciation and Amortization	$ 4,175	$ 12,670	$ 16,845

Geographic Areas	Canada	U.S.	Total
Total revenue	$161,498	$243,470	$404,958
Segment income	$ 18,396	$ 66	$ 18,462
Identifiable assets	$151,274	$157,093	$308,367
Capital expenditures	$ 13,340	$ 8,272	$ 21,612
Depreciation and Amortization	$ 13,683	$ 3,162	$ 16,845

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Dr. Frank 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
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