

REPORT OF THE DIRECTORS

The directors present their report together with the audited accounts for the year ended 31 December 2000.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the manufacturing and trading of watches and watch components, the provision of electroplating services, investment and property holding.

An analysis of the Group's turnover and contribution to operating profit by principal activities and geographical areas of operation for the year ended 31 December 2000 is as follows:–

	Turnover <i>HK\$'000</i>	Contribution to operating profit <i>HK\$'000</i>
<i>By activity:</i>		
Sales of watches	78,287	10,197
Sales of watch components	20,939	(3,428)
Provision of electroplating services	1,374	(466)
Investment holding	–	(15,475)
Property holding	–	(4,240)
	<u>100,600</u>	<u>(13,412)</u>
General and administrative expenses		(7,618)
Waiver of bank loans and interests		<u>47,513</u>
		<u>26,483</u>
<i>By geographical area:</i>		
Hong Kong	47,860	
Middle East	23,553	
United States of America	8,707	
South America	8,077	
Europe	6,288	
Africa	3,822	
Asia	2,293	
	<u>100,600</u>	

No analysis of contribution to trading results by geographical area has been prepared as no contribution to operating profit from any of the above geographical areas is substantially out of line with the normal ratio of operating profit to turnover.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of any dividend.

Summary of financial information

The following table summaries the results, assets and liabilities of the Group for the last five financial years:

	2000	1999	1998	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note)
Turnover	100,600	147,079	190,732	339,916	348,396
Profit/(loss) attributable to shareholders	28,464	(24,887)	(164,308)	(125,702)	38,054
Total assets	70,210	93,747	112,657	321,567	273,868
Total liabilities	(42,246)	(245,681)	(242,704)	(306,206)	(158,880)
Net assets/(liabilities)	27,964	(151,934)	(130,047)	15,361	114,988

Note:

The results, assets and liabilities of the Group for the year ended 31 December 1996 have been prepared as if the group structure, at the time when the Company's shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), had been in existence throughout the year.

Change of Name

Pursuant to a special resolution passed on 8 April 2000, the Company's name was changed to "Medtech Group Company Limited" with effect from 10 April 2000.

REPORT OF THE DIRECTORS

Fixed assets

Details of the movements in fixed assets during the year are set out in note 10 to the accounts.

Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2000 are set out in note 12 to the accounts.

Share capital, share options and warrants

Details of the movements in the Company's share capital and share options during the year are set out in notes 23 and 24 to the accounts.

Particulars of the Company's warrants outstanding as at 31 December 2000 are set out in note 25 to the accounts.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$2,000.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws of Bermuda, being the jurisdiction in which the Company is incorporated.

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. CHEUNG Lik Chung	(appointed on 18 February 2000)
Mr. ZHANG David	(appointed on 18 February 2000)
Mr. YUNG Kin Hang	(appointed on 18 February 2000)
Mr. YAU Yat Biu	(appointed on 18 February 2000)
Mr. KONG Chiu San, Raymond	(appointed on 9 March 2000)
Mr. WONG Wing Shing, Wilson	
Mr. CHU Yuk Kuen	
Mr. TSANG King Hung	(resigned on 18 February 2000)
Mr. HO Chung Pui	(resigned on 18 February 2000)
Mr. WONG Wing Chi	(resigned on 18 February 2000)
Mr. WONG Wing Wai, Gordon	(resigned on 18 February 2000)
Mr. LI Siu Chau	(resigned on 18 February 2000)

Independent Non-executive Directors

Mr. CHAN Nim Leung, Leon	(appointed on 28 February 2000)
Ms. LO Miu Sheung, Betty	(appointed on 28 February 2000)
Mr. LO Kee Wai	(appointed on 8 March 2001)
Mr. LEUNG Ka Kui, Johnny	(resigned on 1 April 2000)
Mr. CHAN Yuk Sing, Freeman	(appointed on 6 May 2000 and resigned on 23 February 2001)

In accordance with Article 86(2) of the Company's Bye-laws, Mr. LO Kee Wai will retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election at that meeting.

In accordance with Article 87(1) of the Company's Bye-laws, Messrs. CHU Yuk Kuen and YUNG Kin Hang shall retire by rotation at the forthcoming annual general meeting and being eligible, shall offer themselves for re-election at that meeting.

Directors' service contracts

Messrs. WONG Wing Shing, Wilson and CHU Yuk Kuen have entered into directors' service contracts with the Company for a fixed term of three years commencing on 18 February 2000 subject to termination by their giving to the Company one month's notice in writing or payment in lieu.

REPORT OF THE DIRECTORS

Save as disclosed above, none of the directors who is proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Biographical details of directors and senior management

The biographical details of the directors and senior management of the Company are set out as follows:-

Executive Directors

Mr. CHEUNG Lik Chung, aged 45, is the Chairman of the Company. Mr. CHEUNG holds investment portfolios comprised of pharmaceutical companies, real estate properties and multi-national trade in various countries, including China, Hong Kong and the USA. In the pharmaceutical arena, Mr. CHEUNG has more than twenty years of strategic top-management level experience. He joined the Group in February 2000.

Mr. ZHANG David, aged 37, is the Deputy Chairman and Managing Director of the Company and is responsible for the strategic planning and overall management of the Group. Mr. ZHANG graduated from Shanghai Jiao Tung University and obtained a Master degree in Science majoring in Electrical and Computer Engineering from the University of Arizona, USA. After his graduation, Mr. ZHANG has worked in research and development in both computer software and hardware in the United States. He has extensive management and marketing experiences in pharmaceutical and real estate properties investments. Mr. ZHANG is a brother of Mr. CHEUNG. He joined the Group in February 2000.

Mr. YUNG Kin Hang, aged 50, is an Executive Director of the Company. Mr. YUNG has extensive experience in pharmaceutical industry, property management and administration. He joined the Group in February 2000.

Mr. YAU Yat Blu, aged 37, is the Deputy Managing Director of the Company and is responsible for the management of the Group's strategic investment and business development. He has over fifteen years' experience in trading, business investment and financial management. He had held various senior management positions in an international conglomerate before he joined the Group in February 2000.

Mr. KONG Chiu San, Raymond, aged 42, is an Executive Director of the Company. Mr. KONG has over fifteen years' professional experience in banking, financial investment, futures and securities business. Mr. KONG is a member of the Hong Kong Securities Institute. He joined the Group in March 2000.

Mr. WONG Wing Shing, Wilson, aged 41, is an Executive Director of the Company. Mr. WONG has over sixteen years' experience in the watch industry including marketing, production engineering and product design. He graduated from the Hong Kong Polytechnic University with a Higher Diploma in Production and Industrial Engineering in 1981. He joined the Group in 1986.

Mr. CHU Yuk Kuen, aged 46, is an Executive Director of the Company. He has over sixteen years' experience in marketing and manufacturing business. He joined the Group in 1998.

Independent Non-executive Directors

Mr. CHAN Nim Leung, Leon, aged 45, is a qualified solicitor in Hong Kong, England and Wales and in the State of Victoria, Australia. He is the principal partner of Messrs. Y. T. Chan & Co., solicitors and notaries. He is a member of the Solicitors Disciplinary Tribunal appointed by the Chief Justice. He is also non-executive director of several listed companies in Hong Kong and the chairman of the internal audit committee of a local bank. Mr. CHAN became an Independent Non-executive Director of the Company in February 2000.

Ms. LO Miu Sheung, Betty, aged 39, who graduated from the University of Hong Kong with a Bachelor's degree in Laws, is a qualified solicitor in Hong Kong, Singapore and England and Wales. Ms. LO has more than ten years' experience in general legal practice. She is currently a consultant of Messrs. K.C.Ho & Fong, solicitors and notaries. Ms. LO has been a Non-executive Director of Kessel International Holdings Limited since September 1997. Ms. LO became an Independent Non-executive Director of the Company in February 2000.

Mr. LO Kee Wai, aged 40, is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Society of Accountants and the Certified General Accountants' Association of Canada, and a Chartered Financial Analyst. Mr. LO is currently the Chief Financial Officer of Midland Realty (Holdings) Limited, an Executive Director of Midland CyberNet Limited as well as the Chief Executive Officer of mReferral Corporation Limited. Prior to that, he had worked for a leading international accounting firm and three large listed conglomerates in Hong Kong. He has over sixteen years' experience in the areas of investments, management, operations, strategic planning and finance. He has rich experience in merger and acquisitions, financial engineering and corporate manoeuvring. Mr. LO became an Independent Non-executive Director of the Company in March 2001.

Senior management

Mr. CHAN Wing Chuen, aged 43, is an director of the subsidiaries. Mr. CHAN graduated from the Trent University in Canada with a Bachelor's degree in Science and has extensive management experience in sales and distribution of computer components and system and network solutions . Mr. CHAN joined the Group in January 2001.

REPORT OF THE DIRECTORS

Mr. HO Chung Pui, aged 37, is the sales and marketing manager of the subsidiaries and is responsible for marketing and strategic planning, product development and customer services. He has over ten years' experience in sales and marketing. He graduated from York University in Canada with a Bachelor's degree in Science and Bachelor's degree in Arts majoring in Mathematics and Computer Science. Mr. HO joined the Group in 1989.

Directors' interests in contracts

Save as note 31 to the accounts, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected transactions

Significant related party transactions entered into by the Group during the year are disclosed in note 31 to the accounts. The transactions, which also constitute connected transaction under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:

- (a) On 27 September 2000, the Company entered into a shareholder loan agreement with a substantial shareholder, Huge China Developments Limited ("Huge China"), in which Huge China agreed to advance an amount of HK\$1,000,000 to the Company. The loan bears interest at the Best Lending Rate per annum and is repayable on demand. Total amount of interest paid to Huge China during the year was approximately HK\$15,000.
- (b) On 27 March 2000, the Company entered into a three year tenancy agreement (1 April 2000 to 31 March 2003) with Chevin Investment Limited ("Chevin"), for leasing an office in Hong Kong. Chevin is a wholly owned subsidiary of Lik Chung Group (Investments) Limited, which is beneficially owned by Mr. CHEUNG Lik Chung, the chairman and a controlling shareholder of the Company. Such transaction has been previously announced in the press by the Company. Pursuant to a deed of surrender, the tenancy agreement was terminated on 14 September 2000.

Saved as disclosed above, there is no other connected transaction entered into by the Group for the year ended 31 December 2000.

Directors' Interests in Securities

As at 31 December 2000, the interests of the directors, chief executive and their associates in the securities of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or notified to the Company were as follows:

	Number of ordinary shares beneficially held		Number of 2002 warrants beneficially held	
	Personal interest	Corporate interest	Personal interest	Corporate interest
Mr. CHEUNG Lik Chung	-	1,346,448,000 (note a)	-	-
Mr. WONG Wing Shing, Wilson	25,100,000	500,000 (note b)	-	83,333 (note b)

Notes:

- (a) The shares under "Corporate Interest" were held by Huge China Developments Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. CHEUNG Lik Chung.
- (b) The shares and the warrants under "Corporate Interest" were held by Farmcote International Limited, a company incorporated in the British Virgin Islands, which is controlled by Mr. WONG Wing Shing, Wilson.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Group by certain directors, as at 31 December 2000, none of the directors, chief executive of the Company and their associates had or was deemed to have any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' rights to acquire shares

Under a share option scheme approved by the shareholders of the Company on 4 July 1996, the directors may, at any time during the ten years from 4 July 1996, invite at their discretion, any employees or executive directors of the Group to take up options to subscribe for shares of the Company.

REPORT OF THE DIRECTORS

As at 31 December 2000, the following directors held share options granted to them under the share option scheme, entitling them to subscribe for shares of HK\$0.01 each in the Company:

Directors	Date of grant	Exercisable period	Consideration for the option granted	Exercise price per share	Number of options
Mr. CHEUNG Lik Chung	3/3/2000	2/9/2000 to 1/9/2003	HK\$1	HK\$0.18	67,500,000
Mr. ZHANG David	3/3/2000	2/9/2000 to 1/9/2003	HK\$1	HK\$0.18	20,000,000
Mr. YUNG Kin Hang	3/3/2000	2/9/2000 to 1/9/2003	HK\$1	HK\$0.18	52,500,000
Mr. YAU Yat Bui	3/3/2000	2/9/2000 to 1/9/2003	HK\$1	HK\$0.18	20,000,000

On 6 January 2000, Mr. TSANG King Hung, an Executive Director, who has resigned on 18 February 2000, exercised 3,500,000 share options which was granted on 7 August 1996 under the Company's share option scheme and subscribed for 3,500,000 shares at HK\$0.43 per share. The remaining number of share options held by Mr. TSANG was subsequently adjusted from 6,625,000 to 16,562,500 as a result of the rights issue in January 2000. On 3 February 2000, Mr. TSANG exercised 16,500,000 share options and subscribed for 16,500,000 shares at HK\$0.184 per share. The remaining 62,500 share options held by Mr. TSANG were lapsed on 6 February 2000.

On 3 February 2000, Mr. WONG Wing Shing, Wilson, an Executive Director, exercised 25,100,000 share options (as adjusted by the rights issue in January 2000) which was granted on 7 August 1996 under the Company's share option scheme, and subscribed for 25,100,000 shares at HK\$0.184 per share. The remaining 212,500 share options held by Mr. WONG were lapsed on 6 February 2000.

On 3 February 2000, Mr. LI Siu Chau, an Executive Director, who has resigned on 18 February 2000, exercised 22,500,000 share options (as adjusted by the rights issue in January 2000) which was granted on 7 August 1996 under the Company's share option scheme, and subscribed for 22,500,000 shares at HK\$0.184 per share.

Save as disclosed above, no share option was exercised by the directors during the year.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company, or their spouses or children under 18 years of age, to acquire benefits by means of acquisition of shares of the Company or any other body corporate.

Substantial shareholders' interests in the share capital of the Company

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors, chief executive and their associates as disclosed above.

Distributable reserves

As at 31 December 2000, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of approximately HK\$69,332,000 is currently not available for distribution. The Company's share premium account with a balance of approximately HK\$166,570,000 may be distributed in the form of fully paid bonus shares.

Pension Scheme

With effect from 1 December 2000, a mandatory provident fund scheme has been set up for all the eligible employees of the Group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group started to make contribution to the retirement scheme from January 2001.

REPORT OF THE DIRECTORS

Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

	2000 %	1999 %
Purchases		
– the largest supplier	33	20
– five largest suppliers combined	61	51
Sales		
– the largest customer	19	26
– five largest customers combined	54	54

None of the directors, chief executive and their associates or any shareholder (which to the knowledge of the directors owns more than 5 percent of the Company's share capital) had an interest in the major suppliers or customers noted above.

Practice Note 19 of the Listing Rules

Save as mentioned in note 15 to the accounts, there is no other disclosure required to be made by the Company pursuant to Practice Note 19 of the Listing Rules.

Compliance with the Code of Best Practice of the Listing Rules

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the year. The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice except that it was established in May 2000 and accordingly was not established for the whole of the accounting period covered by this annual report. The Committee comprises two independent non-executive directors of the Company.

Auditors

PricewaterhouseCoopers resigned as joint auditors of the Group on 21 January 2000. Graham H.Y. Chan & Co. remained the auditors of the Group from that date.

Apart from the foregoing, there were no other changes in auditors of the Group in any of the preceding three years.

Graham H. Y. Chan & Co. retires and, being eligible, offers themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

CHEUNG Lik Chung

Chairman

Hong Kong, 23 April 2001