

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of certain properties.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Joint ventures (continued)

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(d) Revenue recognition

Revenue from the sale of goods is recognised, on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the sale of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(e) Fixed assets

Leasehold land, including land use rights in the People's Republic of China (the "PRC"), and buildings are stated at valuation. It is the Group policy to review regularly the carrying value of leasehold land and buildings on an individual basis and adjustment is made where there has been a material change. If it is considered appropriate, independent professional valuations are obtained. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained earnings.

Other tangible fixed assets are stated at cost less accumulated depreciation.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

Amortisation of leasehold land, including land use rights in the PRC, is calculated to write off its valuation over the unexpired period of the lease on a straight line basis. The principal annual rates used for this purpose are 2% to 2.5%.

Depreciation of leasehold buildings is calculated to write off their valuation on a straight line basis over the unexpired period of the lease or their expected useful lives to the Group, whichever is shorter. The principal annual rates used for this purpose are 2.5% to 4%.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:–

Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20% – 30%
Motor vehicles	30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Construction in progress

Construction in progress is stated at cost which mainly comprises direct costs of construction and is transferred to fixed assets when it is capable of producing saleable output on a commercial basis. The amount of any reduction to recoverable amount is charged to the profit and loss account.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balance outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of overseas subsidiaries are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(l) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO THE ACCOUNTS

2. REVENUE AND TURNOVER

The Group is principally engaged in the manufacturing and trading of watches and watch components, the provision of electroplating services, investment and property holding. Revenue recognised during the year are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover		
Sale of watches	78,287	122,654
Sale of watch components	20,939	22,161
Provision of electroplating services	1,374	2,264
	100,600	147,079
Other revenue		
Interest income	198	11
Rental income	70	–
Gain on disposal of fixed assets	117	–
Other income	311	–
	696	11
Total revenue	101,296	147,090

NOTES TO THE ACCOUNTS

3. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is stated after charging/(crediting) the following:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cost of inventories sold	118,815	163,266
Reversal of provision for obsolete and slow moving inventories	(21,803)	(24,924)
Auditors' remuneration		
– Charge for the year	570	570
– Underprovision for previous year	50	–
Depreciation		
– Owned fixed assets	5,496	6,244
– Leased fixed assets	1,718	1,719
Staff costs (<i>note</i>)	14,619	11,865
Operating lease rentals:		
Hire of office equipment	16	–
Land and buildings	2,291	129
Other operating expenses		
Loss on disposal of fixed assets	–	200
Loss on disposal of subsidiaries	685	–
Revaluation deficit in respect of leasehold land and buildings	2,281	3,403
Financial restructuring costs	5,063	1,089
Provision for construction in progress	169	720
Other gains		
Reversal of provision for advances to a supplier	(19,250)	(2,080)
Reversal of provision for bad and doubtful debts	(2,381)	(7,521)
Waiver of finance lease charges	(445)	–
	_____	_____

Note: Staff costs here exclude directors' emoluments which are disclosed in note 9 below and direct labour cost of approximately HK\$15,615,000 (1999 : HK\$18,198,000) which is included in cost of inventories sold.

NOTES TO THE ACCOUNTS

4. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest expenses on bank loans and overdrafts	896	10,601
Finance lease charges	—	245
	<u>896</u>	<u>10,846</u>

5. TAXATION

	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax		
Overprovision in previous years	<u>2,877</u>	<u>—</u>

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit for the year.
- (b) Taxation in the consolidated balance sheet represents the amount of Hong Kong profits tax provided for previous years.
- (c) No provision for deferred taxation has been made in the accounts as the effect of timing differences is not material to the Group.

6. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of approximately HK\$154,377,000 (1999: loss of HK\$3,275,000).

7. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2000 (1999: Nil).

NOTES TO THE ACCOUNTS

8. EARNINGS/(LOSS) PER SHARE

- (a) The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of approximately HK\$28,464,000 (1999: loss of HK\$24,887,000) and the weighted average number of 2,657,828,474 (1999 : 1,076,486,414) ordinary shares in issue after adjustment of the number of shares in issue prior to the rights issue on 16 February 2000. The loss per share for 1999 has been adjusted accordingly.
- (b) The diluted earnings per share is based on 3,062,395,003 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 346,254,836 ordinary shares deemed to be issued at no consideration if all outstanding warrants had been exercised. The diluted loss per share for the year ended 31 December 1999 had not been presented as the effect of any dilution is anti-dilutive.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:–

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	<u>140</u>	<u>–</u>
	<u>140</u>	<u>–</u>
Other emoluments of executive directors:		
Basic salaries and allowances	<u>8,036</u>	6,381
Benefit from share options exercised	<u>19,829</u>	<u>–</u>
	<u>27,865</u>	<u>6,381</u>
	<u>28,005</u>	<u>6,381</u>

NOTES TO THE ACCOUNTS

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

In addition to the directors' emoluments disclosed above, during the year, 160,000,000 options were granted to the directors under the share option scheme approved by the shareholders on 4 July 1996. Each of the options entitled the holder to subscribe for one ordinary share of HK\$0.01 each in the Company at an exercise price of HK\$0.18 per share at any time during the period from 2 September 2000 to 1 September 2003.

- (b) The number of directors whose emoluments fell within the following bands is as follows:-

HK\$	Number of directors	
	2000	1999
0 – 1,000,000	9	10
1,000,001 – 1,500,000	2	1
1,500,001 – 2,000,000	1	–
5,500,001 – 6,000,000	1	–
6,500,001 – 7,000,000	1	–
8,500,001 – 9,000,000	1	–
	<u>15</u>	<u>11</u>

No director has waived or agreed to waive any emoluments in respect of the years ended 31 December 1999 and 2000.

- (c) The five highest paid individuals during the year included five (1999 : four) directors, details of whose emoluments are set out in notes 9(a) and 9(b) above. The remaining individual whose emolument fell within the band of Nil to HK\$1,000,000 in last year is as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries and other benefits in kind	<u>–</u>	<u>986</u>

NOTES TO THE ACCOUNTS

10. FIXED ASSETS

Group

	Leasehold land and buildings							
	In Hong Kong held under medium leases	Outside Hong Kong held under medium leases	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(note (e))					
Cost or valuation								
Brought forward	20,730	25,000	8,874	6,373	38,499	8,120	3,048	110,644
Additions, at cost	-	-	169	727	110	754	-	1,760
Adjustment on revaluation	-	(3,100)	-	-	-	-	-	(3,100)
Provision	-	-	(9,043)	-	-	-	-	(9,043)
Disposal of subsidiaries	(7,700)	-	-	-	-	-	-	(7,700)
Disposals	(13,030)	-	-	-	(4)	(57)	-	(13,091)
Carried forward	-	21,900	-	7,100	38,605	8,817	3,048	79,470
Carried forward as follows:-								
At cost	-	-	-	7,100	38,605	8,817	3,048	57,570
At valuation	-	21,900	-	-	-	-	-	21,900
	-	21,900	-	7,100	38,605	8,817	3,048	79,470
Aggregate depreciation								
Brought forward	-	-	-	5,454	28,420	6,863	2,768	43,505
Charge for the year	400	819	-	1,060	4,038	620	277	7,214
Adjustment on revaluation	-	(819)	-	-	-	-	-	(819)
Disposal of subsidiaries	(186)	-	-	-	-	-	-	(186)
Disposals	(214)	-	-	-	-	(57)	-	(271)
Carried forward	-	-	-	6,514	32,458	7,426	3,045	49,443
Net book value								
At 31 December 2000	-	21,900	-	586	6,147	1,391	3	30,027
At 31 December 1999	20,730	25,000	-	919	10,079	1,257	280	58,265

NOTES TO THE ACCOUNTS

10. FIXED ASSETS (continued)

- (a) The Group's leasehold land and buildings including land use rights and buildings in the PRC, were revalued by AA Property Services Limited, an independent professional valuer, on an open market value basis as at 31 December 2000.
- (b) The deficit arising on revaluation of leasehold land and buildings amounting to HK\$2,281,000 is accounted for in the consolidated profit and loss account (note 3). The revaluation does not constitute a timing difference for taxation purpose.
- (c) The carrying amount of leasehold land and buildings that would have been included in the accounts had these assets been carried at cost less accumulated depreciation is HK\$24,379,000 (1999: HK\$64,823,000) for the Group.
- (d) As at 31 December 2000, the net book value of fixed assets held by the Group under finance leases amounted to HK\$2,916,000 (1999 : HK\$4,634,000).
- (e) Construction in progress represents the cost of construction in respect of the Group's new production facility in the PRC where construction has yet to be completed. As at 31 December 2000, the Group incurred an aggregate construction cost of HK\$9,043,000. The directors are of the view that, as a result of the Group's current limited cash flows, the Group may not have the necessary cash resources available to complete the construction of this new production facility. In view of these circumstances, the directors have made full provision in respect of the aggregate construction costs of HK\$9,043,000 in the accounts of which HK\$7,967,000, HK\$187,000 and HK\$720,000 were already provided in the accounts for the years ended 31 December 1997, 1998 and 1999 respectively.

NOTES TO THE ACCOUNTS

10. FIXED ASSETS (continued)

- (f) All of the Group's fixed assets have been charged as a continuing security for the amount due to Bank Group. Such amount was fully settled in March 2001, the Group is now in the process of applying for the full release of these charges.

Company

	Furniture and fixtures <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
Brought forward	–	–	–
Additions	353	241	594
	<u>353</u>	<u>241</u>	<u>594</u>
Carried forward	353	241	594
	<u>353</u>	<u>241</u>	<u>594</u>
Accumulated depreciation			
Brought forward	–	–	–
Charge for the year	59	58	117
	<u>59</u>	<u>58</u>	<u>117</u>
Carried forward	59	58	117
	<u>59</u>	<u>58</u>	<u>117</u>
Net book value			
At 31 December 2000	<u>294</u>	<u>183</u>	<u>477</u>
At 31 December 1999	<u>–</u>	<u>–</u>	<u>–</u>

11. INVESTMENT IN JOINT VENTURE

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Contribution to the investment in a co-operative sino-foreign joint venture in the PRC, at cost	–	15,486
Less : provision	–	(15,486)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

NOTES TO THE ACCOUNTS

11. INVESTMENT IN JOINT VENTURE (continued)

On 3 August 1997, a wholly-owned subsidiary of the Company, Eternal Summit Investments Limited ("Eternal Summit") entered into a joint venture agreement (the "JV agreement") with Beijing Hua Zheng Kang Communication and Technology Company Limited and Target Wise Development Limited to establish Beijing Future Telecommunication Limited, a co-operative sino-foreign joint venture in the PRC, to develop and operate a personal two-way mobile information system in Beijing, the PRC.

In accordance with the JV agreement, Eternal Summit was required by 3 January 1998 to make a total cash contribution of US\$4,500,000 to the joint venture, representing 90% of the total registered capital.

As at 31 December 1999, the Group had contributed US\$2,000,000 (HK\$15,486,000) to the joint venture and has not met the remaining cash contribution commitments. In view of its uncertain future prospect, full provision for this investment has been made in the accounts.

Subsequent to the Company's disposal of its interest in Eternal Summit to independent third parties on 29 December 2000, the Group has no further commitment to the JV.

12. SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost (<i>note a</i>)	69,532	69,532
Amount due from subsidiaries (<i>note b</i>)	242,731	96,410
Less : provision	(305,820)	(165,942)
	6,443	-

12. SUBSIDIARIES (continued)

- (a) The table below lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year and formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the principal subsidiaries as at 31 December 2000 are as follows: -

Company	Place of incorporation/ registration and operations	Paid up registered/ issued share capital	Percentage of equity held by the Company		Principal activities
			2000	1999	
Shares held directly:-					
Million-Well Enterprises Corp.	British Virgin Islands	US\$130,000	100%	100%	Investment holding
Lifecycle Investments Limited	British Virgin Islands	US\$1	100%	-	Investment holding
Shares held indirectly:-					
Medtech (H.K.) Company Limited	Hong Kong	HK\$2	100%	-	Provision of management services to the Group
Mighty Combination Limited	British Virgin Islands	US\$1	100%	-	Investment holding
Millennium Ideas Limited	British Virgin Islands	US\$1	100%	-	Investment holding
Real Return Limited	British Virgin Islands	US\$1	100%	-	Investment holding

NOTES TO THE ACCOUNTS

12. SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Paid up registered/ issued share capital	Percentage of equity held by the Company		Principal activities
			2000	1999	
City Check Limited	British Virgin Islands	US\$10,000	100%	100%	Manufacturing of watches and watch components
Dongguan Queshi Watch Co. Ltd.	The People's Republic of China	HK\$15,400,000	100%	100%	Manufacturing of watch components
Easy Rich Watch Dial Factory Limited	Hong Kong	HK\$10,000	100%	100%	Trading of watch dials
Funwell Industrial Company Limited	Hong Kong	HK\$10,000	100%	100%	Trading of leather watch straps
Hangfer Company Limited	Hong Kong	HK\$10,000	100%	100%	Trading of watch cases
Silver Crystal Manufacturing Company Limited	Hong Kong	HK\$10,000	100%	100%	Trading of watch glasses
Stime Watch Manufacturing Limited	British Virgin Islands	US\$50,000	100%	100%	Trading of watches and watch components; property holding

NOTES TO THE ACCOUNTS

12. SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Paid up registered/ issued share capital	Percentage of equity held by the Company		Principal activities
			2000	1999	
Stime Watch Manufacturing Company Limited	Hong Kong	HK\$10,000	100%	100%	Trading of watches
Vanfer Electroplating Factory Limited	Hong Kong	HK\$10,000	100%	100%	Electroplating of watch components
Wing Fat Watch Band Factory Limited	Hong Kong	HK\$10,000	100%	100%	Trading of metal watch bands

- (b) The amounts due from subsidiaries, except HK\$6,000,000 due from Stime Watch Manufacturing Company Limited which bears interest at 8.5 percent per annum and is repayable on 17 February 2001, are unsecured, interest-free and have no fixed term of repayment.

13. INVENTORIES

	2000 HK\$'000	1999 HK\$'000
Raw materials	7,003	8,283
Work in progress	17,743	8,218
Finished goods	2,259	2,076
	<u>27,005</u>	<u>18,577</u>

The amount of inventories that are carried at net realisable value is approximately HK\$27,005,000 (1999 : HK\$18,577,000).

NOTES TO THE ACCOUNTS

14. TRADE RECEIVABLES

The following is an aged analysis of trade receivables at the balance sheet date:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
0 – 3 months	8,422	15,261
4 – 6 months	959	403
7 – 12 months	3	–
	<u>9,384</u>	<u>15,664</u>

It is the Group policy to make full provision on those trade receivables outstanding for more than six months at year end date and remained unsettled at the date of approval of these accounts.

15. ADVANCES TO A SUPPLIER

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Advances to a supplier	35,339	54,589
Less: provision	<u>(35,339)</u>	<u>(54,589)</u>
	<u>–</u>	<u>–</u>

During the years 1997 and 1998, the Group had advanced totally HK\$56,669,000 to a supplier of the Group, Cheung Tat Metal Products Factory, for supply of goods. The amounts are unsecured, interest-free and have no fixed term of repayment.

In 1998, the goods were later found to be defective and the Company exercised the right to reject the goods and returned the same to the supplier, and further demanded the supplier to refund the said consideration of HK\$56,669,000 to the Company. Full provision for defective goods returns had been made against such advances in the aforesaid amounts.

NOTES TO THE ACCOUNTS

15. ADVANCES TO A SUPPLIER (continued)

On 20 October 1999, the Company and the supplier entered into a deed of settlement under which the supplier will deliver 100,000 quartz watch movements to the Company every month between November 1999 and May 2004. The quartz watch movements in each delivery shall be of acceptable quality and fit for the purpose of the Group. Up to 31 December 2000, the Group has received 14 installments of such goods with estimated value of HK\$21,330,000.

16. CASH AND BANK BALANCES

Included in cash and bank balances of the Group are Renminbi cash and bank deposits in the People's Republic of China of approximately HK\$175,000 (1999 : HK\$159,000).

17. AMOUNTS DUE TO DIRECTORS

The amounts due to directors represent certain emoluments for 1997, 1999 and 2000 which were unpaid by the Group as at 31 December 2000. The amounts are unsecured, interest-free and repayable on demand.

18. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
0 – 3 months	4,786	12,185
4 – 6 months	3,631	7,736
7 – 12 months	4,894	407
Over 12 months	430	544
	<u>13,741</u>	<u>20,872</u>

19. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

Other than the advance of HK\$1,000,000 which bears interest at Best Lending Rate per annum as disclosed in note 31, the amount due to a substantial shareholder, is unsecured, interest-free and has no fixed term of repayment.

NOTES TO THE ACCOUNTS

20. OBLIGATIONS UNDER FINANCE LEASES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Repayable:		
Within one year	2,619	4,598
In the second to fifth year inclusive	384	1,019
	<u>3,003</u>	<u>5,617</u>
Amount due within one year, included under current liabilities	<u>(2,619)</u>	<u>(4,598)</u>
	<u><u>384</u></u>	<u><u>1,019</u></u>

21. BANK LOANS AND OVERDRAFTS – SECURED

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank overdrafts	-	41,039
Bank loans	-	38,695
Discounted bill	-	2,140
Accrued bank loan interest	-	848
	<u>-</u>	<u>82,722</u>
	<u><u>-</u></u>	<u><u>82,722</u></u>

22. AMOUNT DUE TO BANK GROUP

This represents the unsettled portion of deferred payment agreed with Standard Chartered Bank as agent of the creditor bank ("Bank Group") of the Company upon financial restructuring which was completed in early of this year. The deferred payment was fully settled in March 2001.

23. SHARE CAPITAL

	2000 HK\$'000	1999 HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 (1999 : HK\$0.10) each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 (1999 : HK\$0.10) each	<u>29,175</u>	<u>56,356</u>

On 6 January 2000, Mr. TSANG King Hung, an Executive Director, who resigned on 18 February 2000, exercised 3,500,000 share options under the Company's share option scheme and subscribed for 3,500,000 shares at HK\$0.43 per share. The proceeds of HK\$1,505,000 were used as working capital of the Company.

On 25 January 2000, the nominal value of the issued and fully paid shares of 567,058,275, was reduced from HK\$0.10 to HK\$0.01 each. On the same date, every authorised, unissued and unpaid share of 432,941,725 was sub-divided into 10 new shares of HK\$0.01 each. The credit due to capital reduction of approximately HK\$51,035,000 was used to reduce the Company's and the Group's accumulated loss as at 31 December 1999.

On 25 January 2000, Huge China Developments Limited ("Huge China") subscribed for 400,000,000 subscription shares of HK\$0.01 each at a price of HK\$0.02 per shares and became the controlling shareholder of the Company after the subscription. The Company received proceeds of HK\$8,000,000 and then applied the same towards partial settlement of the unsecured portion of the bank indebtedness. The subscription shares were entitled to the Rights Issue mentioned below and the Bonus Warrant Issue in note 25 on 16 February 2000.

On 25 January 2000, 225,000,000 shares ("Settlement Shares") were issued at a price of HK\$0.40 per share to the Bank Group. The Settlement Shares were entitled to the Bonus Warrant Issue but not the Rights Issue.

On 3 February 2000, a total of 89,000,000 options were exercised at adjusted price of HK\$0.184 each and 312,500 options lapsed on 6 February 2000. The proceeds of HK\$16,376,000 were used as working capital of the Group.

NOTES TO THE ACCOUNTS

23. SHARE CAPITAL (continued)

On 16 February 2000, the Company raised approximately HK\$29,012,000 before expenses by way of rights issue of 1,450,587,412 right shares on the basis of every three right shares for every two new shares at a price of HK\$0.02 per right share ("Rights Issue"). The Settlement Shares were not entitled to the Rights Issue. The purpose of the Rights Issue was to allow the then existing shareholders to participate in the immediate recapitalisation of the Company as well as to raise necessary funding for the Group.

On 15 November 2000, 150,000,000 new ordinary shares at an issued price of HK\$0.041 each were placed to independent placees by TingKong – Rexcapital Securities International Limited ("TRS") as the placing agent pursuant to a placing agreement entered between the Company and TRS. The net proceeds of the placing were used as working capital of the Group.

During the year, 35,874,418 shares of HK\$0.01 each of the Company were issued at a subscription price of HK\$0.02 per share to the warrant holders on the exercise of their subscription rights at a total consideration of approximately HK\$717,000.

24. SHARE OPTIONS

Under a share option scheme approved by the shareholders of the company on 4 July 1996 (the "Scheme"), 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.

On 6 January 2000, Mr. TSANG King Hung, an Executive Director, who has resigned on 18 February 2000, exercised 3,500,000 share options under the Company's share option scheme and subscribed for 3,500,000 shares at HK\$0.43 per share. The proceeds of HK\$1,505,000 were used as working capital of the company.

On 3 February 2000, a total of 89,000,000 options were exercised at adjusted price of HK\$0.184 each and 312,500 options lapsed on 6 February 2000. The proceed of HK\$16,376,000 was used as working capital of the Group.

On 3 March 2000, share options entitling the holders to subscribe for 170,000,000 shares at a price of HK\$0.18 per share at any time between 2 September 2000 to 1 September 2003 were granted under the Scheme.

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

NOTES TO THE ACCOUNTS

25. WARRANTS

2002 Warrants

On 16 February 2000, the Company issued 440,440,947 new bonus warrants on the basis of one new bonus warrant for every six new shares held by qualifying shareholders. The exercise price for the new bonus warrant is HK\$0.02, in exchange for one new share at HK\$0.01 each, and valid until 15 February 2002. If the warrants are fully exercised the Company will be required to issue 440,440,947 shares. During the year, 35,874,418 warrants were exercised and 404,566,529 warrants were outstanding at year end.

26. RESERVES

	Share premium account HK\$'000	Contributed surplus (note) HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
At 1 January 1999	38,990	-	814	-	140	(223,347)	(183,403)
Loss attributable to shareholders	-	-	-	-	-	(24,887)	(24,887)
At 31 December 1999	<u>38,990</u>	<u>-</u>	<u>814</u>	<u>-</u>	<u>140</u>	<u>(248,234)</u>	<u>(208,290)</u>
At 1 January 2000	38,990	-	814	-	140	(248,234)	(208,290)
Capital reduction	-	-	-	-	-	51,035	51,035
Issue of shares	127,906	-	-	-	-	-	127,906
Share issue expenses	(326)	-	-	-	-	-	(326)
Profit attributable to shareholders	-	-	-	-	-	28,464	28,464
At 31 December 2000	<u>166,570</u>	<u>-</u>	<u>814</u>	<u>-</u>	<u>140</u>	<u>(168,735)</u>	<u>(1,211)</u>

NOTES TO THE ACCOUNTS

26. RESERVES (continued)

	Share premium account	Contributed surplus (note)	Capital reserve	Revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company							
At 1 January 1999	38,990	69,332	-	-	-	(161,833)	(53,511)
Loss for the year	-	-	-	-	-	(3,275)	(3,275)
At 31 December 1999	<u>38,990</u>	<u>69,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(165,108)</u>	<u>(56,786)</u>
At 1 January 2000	38,990	69,332	-	-	-	(165,108)	(56,786)
Capital reduction	-	-	-	-	-	51,035	51,035
Issue of shares	127,906	-	-	-	-	-	127,906
Share issue expenses	(326)	-	-	-	-	-	(326)
Loss for the year	-	-	-	-	-	(154,377)	(154,377)
At 31 December 2000	<u>166,570</u>	<u>69,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(268,450)</u>	<u>(32,548)</u>

Note:

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued and the value of net assets of the underlying subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

NOTES TO THE ACCOUNTS

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Operating profit/(loss)	26,483	(14,041)
Reversal of provision for bad and doubtful debts	(2,381)	(7,521)
Reversal of provision for obsolete and slow-moving inventories	(21,803)	(24,924)
Provision for construction in progress	169	720
Revaluation deficit in respect of leasehold land and buildings	2,281	3,403
Depreciation of fixed assets	7,214	7,963
(Gain)/loss on disposal of fixed assets	(117)	200
Loss on disposal of subsidiaries	685	–
Decrease in inventories	13,375	29,897
Decrease in trade receivables, prepayments and deposits, including advances to a supplier	6,294	9,218
Decrease in trade payables, accrued charges and provisions, including amounts due to directors	(4,616)	(8,093)
Decrease in trust receipt loans	(23,994)	(8)
Interest income	(198)	(11)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	3,392	(3,197)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities

	Share capital including share premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Obligation under finance leases <i>HK\$'000</i>
Brought forward	95,346	38,695	5,617
Capital reduction	(51,035)	–	–
Issue of shares for cash <i>(note 27(d))</i>	61,760	–	–
Issue of Settlement Shares <i>(note 27(d))</i>	90,000	–	–
Share issue expenses written off directly to share premium	(326)	–	–
Addition of bank loans	–	21,125	–
Repayment of bank loans	–	(58,595)	–
Payment of capital element of finance leases	–	–	(2,614)
	<u>195,745</u>	<u>1,225</u>	<u>3,003</u>
Carried forward	<u>195,745</u>	<u>1,225</u>	<u>3,003</u>

NOTES TO THE ACCOUNTS

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Sales of subsidiaries

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets disposal of :		
Fixed assets	7,514	–
Cash and bank balances	–	–
Other net current assets	1	–
	<u>7,515</u>	<u>–</u>
Loss on disposal	<u>(685)</u>	<u>–</u>
Consideration	<u>6,830</u>	<u>–</u>

The analysis of net inflow of cash and cash equivalents in respect of the disposal is as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash consideration received	6,830	–
Cash and bank balances disposed	<u>–</u>	<u>–</u>
Net inflow of cash and cash equivalents	<u>6,830</u>	<u>–</u>

(d) Major non-cash transactions

- (i) On 25 January 2000, the nominal value of the issued and fully paid shares of 567,058,275, was reduced from HK\$0.10 to HK\$0.01 each. On the same date, every authorised, unissued and unpaid share of 432,941,725 was sub-divided into 10 new shares of HK\$0.01 each. The credit due to capital reduction of approximately HK\$51,035,000 was used to reduce the Company's and the Group's accumulated loss as at 31 December 1999.
- (ii) During the year, the Company has allotted 225,000,000 shares at a price of HK\$0.40 per share to the Bank Group as partial settlement of the amount due to the Bank Group.

NOTES TO THE ACCOUNTS

28. CONTINGENT LIABILITIES

As at 31 December 2000, 35 (1999 : 38) employees have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Company is only liable to make such payments where the termination meets the circumstances specified in the Ordinance.

If the termination of all such employees met the circumstances set out in the Ordinance, the Company's liability as at 31 December 2000 would be approximately HK\$3,691,000 (1999: HK\$3,988,000). No provision has been made in this respect.

29. PLEDGE OF ASSETS

As at 31 December 2000, the amount due to Bank Group were secured by charges on all the Group's undertakings, properties, assets, goodwill, rights and revenues, both present and future. Since the amount due to Bank Group was fully settled in March 2001, the Group is now in the process of applying for the full release of these charges.

30. COMMITMENTS

(a) Capital commitments

On 21 December 2000, Lifecycle Investments Limited, a wholly owned subsidiary of the Company, entered into a conditional agreement to acquire the entire issued share capital of Enet.com Limited at HK\$14,300,000, to be satisfied by the issue of 300,000,000 new ordinary shares in the Company at a price of HK\$0.041 each and cash consideration of HK\$2,000,000. The acquisition was completed on 10 January 2001 in accordance with the terms of the agreement.

30. COMMITMENTS (continued)

(b) Commitments under operating leases

As at 31 December 2000 the Company had commitments to make payments in the next twelve months under operating leases which are expiring as follows:

	Land and buildings <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>
Within one year	527	–
In the second to fifth year inclusive	2,736	19
	<u>3,263</u>	<u>19</u>

31. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties in the normal course of business:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Rental expenses paid to Chevin Investment Limited (a)	754	–
Interest paid to Huge China Developments Limited (b)	15	–

(a) Mr. CHEUNG Lik Chung, the chairman and a controlling shareholder of the Company, has beneficial interests in Chevin Investment Limited.

(b) 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.

NOTES TO THE ACCOUNTS

32. CHANGE OF COMPANY 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.

33. POST BALANCE SHEET EVENTS

- (1) On 21 December 2000, Lifecycle Investments Limited, a wholly owned subsidiary of the Company, entered into a conditional agreement to acquire the entire issued share capital of Enet.com Limited at HK\$14,300,000, to be satisfied by the issue of 300,000,000 new ordinary shares in the Company at a price of HK\$0.041 each and cash consideration of HK\$2,000,000. The acquisition was completed on 10 January 2001 in accordance with the terms of the agreement.
- (2) On 8 March 2001, Huge China Developments Limited ("Huge China"), a substantial shareholder of the Company, entered into a placing agreement with Infast Brokerage Limited as placing agents for placing up to a total of 101,000,000 existing ordinary shares at a price of HK\$0.06 per share to independent investors. On completion of the placing, Huge China will subscribe for up to 101,000,000 new ordinary shares at the price of HK\$0.06 per share pursuant to a subscription agreement dated 8 March 2001 made between the Company and Huge China. The placing completed on 14 March 2001 and 61,000,000 existing shares of the Company were placed to independent investors. As a result, Huge China subscribed for 61,000,000 new shares of the Company. The net proceeds will be used by the Company and its subsidiaries for general working capital purposes.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 April 2001.