

Chairman's Statement

On behalf of the Board of Directors, I present this annual report and the audited annual results of Medtech Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2001.

Financial Results

The Group's turnover for the financial year ended 31 December 2001 was approximately HK\$113,132,000, representing a 12 percent increase compared with HK\$100,600,000 in 2000. The increase was mainly due to the newly acquired business in distribution of computer components which contributed 34 percent to the Group's turnover. However, there was a loss attributable to shareholders of approximately HK\$21,062,000 for the year 2001, representing a decrease of 174 percent compared with 2000 during which a profit of HK\$28,464,000 was recorded. Profit attributable to shareholders during the same period last year was resulted mainly from the Group's debt restructuring program completed by February 2000, in which a waiver of bank loans and interests of approximately HK\$47,513,000 was recorded.

The loss attributable to shareholders for the year ended 31 December 2001 was mainly contributed by a depleted gross margin as a result of severe market competition and the amortisation of goodwill arising from the acquisition of subsidiaries amounting to a sum of HK\$2,678,000.

Dividends

The Board of Directors has resolved not to distribute any dividend for the financial year ended 31 December 2001.

Business Review

Two thousand and one was a difficult year for the Group's operation in general. The pace of global economic growth slowed down substantially last year, particularly after the "911" terrorist attacks in the United States. In light of the uncertain economic climate, consumer confidence continued to decline. Stagnant consumer market begot fierce competition and a continual downward adjustment. In sales prices, the Group was unable to avoid making a loss despite efforts in containing costs and streamlining the deployment of manpower and organisation structure.

Manufacturing and Sale of Watches and Watch Components

For the year ended 31 December 2001, the Group's income derived from the manufacturing and sale of watches and watch components was approximately HK\$75,186,000, which was equivalent to 66 percent of the Groups' total turnover, representing a drop of 25 percent compared with the turnover of manufacturing and sale of watches and watch components of HK\$100,600,000 for the same period last year. The loss incurred was approximately HK\$8,657,000, a decrease of 484 percent from the profit of HK\$2,250,000 recorded in last year. The Middle East remains the Group's major market for watches.

A prolonged period of economic downturn, coupled with weak consumer spending, has resulted in a significant decline in market demand for such consumer goods as watches. Owing to over-supply in the market, there has been fierce competition within the industry with companies having to struggle for survival under a very narrow profit margin. Consequently, watch prices continued to fall sharply, even more so than the prices of raw materials. Against this difficult operating environment, the Group has been trying its very best to contain production costs though there was a limit to the extent to which fixed production costs could be reduced. As a result, Group's profit margin slipped from 3.5 percent last year to negative 7.6 percent this year.

Distribution of Computer Components

In early 2001, the Group completed the acquisition of the entire issued share capital of Enet.com Limited. The major business of Enet.com Limited and its subsidiaries is the distribution of computer components, computer systems and network software.

The Group's turnover in the distribution of computer components for the financial year ended 31 December 2001 was approximately HK\$37,946,000, representing 34 percent of the Group's total turnover. Canada and Hong Kong remain as the Group's primary markets for the distribution of computer components. They account for 60 and 40 percent respectively of the total turnover on the distribution of computer components.

As at 31 December 2001, the loss recorded from the distribution of computer components was approximately HK\$2,827,000, while profit margin dropped to 3.5 percent this year.

For the year under review, the performance of the distribution of computer components was unsatisfactory. It was due mainly to the unforeseen changing business environment for the industry last year. With the increasing number of rivals in the industry, commodity prices were inevitably dropped at a faster pace. Although the management strived their best to boost the turnover, they could not make up for the loss resulted from the plunge of prices.

Prospects

Looking ahead, we still see a number of uncertainties. The Group's market remains highly concentrated in the North America, Hong Kong and the Middle East. Given the slow pace of economic recovery in the United States, it is not expected to help Hong Kong emerge rapidly from the current economic doldrums. In Hong Kong, unemployment remains a serious problem, which directly affects consumer confidence. In the Middle East, the future is highly uncertain in view of renewed tension in the region.

Under the circumstances, the Management takes a cautious approach regarding the Group's existing markets. While continuing to control production costs and maintaining the competitiveness of products, the Group will also seriously review the performance of its core business, with a view to finding a way out.

After entering into the World Trade Organisation, the Chinese Mainland is expected to gradually open her domestic market to the world. The economic benefits to be derived from this development are also expected to realise step by step. To prepare for these, the Group has been actively looking for investment opportunities in biotechnology and pharmaceutical-related projects in Western China so as to secure stable and good returns. However, the disappointing performance of the Group's existing business has not been able to generate sufficient funds for these pursuits. With the downward adjustment of lending rates in the Mainland, the Group has been able to grasp the opportunity and use its internal resources flexibly and effectively to obtain capital for future development.

By Order of the Board
CHEUNG Lik Chung
Chairman

Hong Kong, 27 April 2002