



邁 特 科 技 集 團 有 限 公 司
MEDTECH GROUP COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

2004 INTERIM REPORT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr CHEUNG Yu Shum, Jenkin (*Chairman*)
Mr CHU Yuk Kuen
Mr WONG Kui Tak
Mr NG Tak Chak, Nelson

Independent Non-executive Directors

Mr SHUM Ka Hei
Mr CHAN Chi Yuen
Mr WONG King Shiu, Daniel

COMPANY SECRETARY

Mr CHEUNG Man Yau, Timothy

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1801-02
18/F Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Abacus Share Registrars Limited
G/F Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

1031

INTERIM RESULTS

The Board of Directors (the "Board") of Medtech Group Company Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004.

Condensed Consolidated Profit and Loss Account

		Unaudited	
		Six months ended 30 June	
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	3	56,812	38,364
Cost of sales		(50,889)	(30,670)
Gross profit		5,923	7,694
Distribution costs		(454)	(333)
Administrative expenses		(6,501)	(6,596)
Other operating expenses		(1,755)	–
Other gains		13	1,036
Profit/(loss) from operating activities	4	(2,774)	1,801
Finance cost		(417)	(626)
Profit/(loss) before taxation		(3,191)	1,175
Taxation	5	–	–
Profit/(loss) attributable to shareholders		(3,191)	1,175
Dividend	6	Nil	Nil
Earnings/(loss) per share			
– Basic	7	(0.08) cents	0.07 cents
– Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	Note		
Non-current assets			
Fixed assets		22,698	23,045
Deferred tax assets		810	810
		<u>23,508</u>	<u>23,855</u>
Current assets			
Inventories		16,686	12,337
Trade receivables	8	9,638	12,593
Prepayments, deposits and other receivables		5,261	3,581
Other investments		3,678	7,909
Cash and bank balances		53,041	3,063
		<u>88,304</u>	<u>39,483</u>
Current liabilities			
Trade payables	9	18,428	15,023
Other payables and accruals		20,721	20,209
Amounts due to directors		15	15
Amount due to a substantial shareholder		33	33
Current portion of obligations under finance leases		138	207
Tax payable		908	1,316
Bank loan – secured		10,280	12,055
		<u>50,523</u>	<u>48,858</u>
Net current assets/(liabilities)		<u>37,781</u>	<u>(9,375)</u>
Total assets less current liabilities		<u>61,289</u>	<u>14,480</u>
Capital and reserves			
Issued capital	10	66,157	48,471
Reserves		(5,625)	(34,748)
		<u>60,532</u>	<u>13,723</u>
Non-current liabilities			
Deferred tax liabilities		757	757
		<u>61,289</u>	<u>14,480</u>

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(2,408)	(3,545)
Net cash from investing activities	4,230	–
Net cash from financing activities	48,156	11,738
Net increase in cash and cash equivalents	49,978	8,193
Cash and cash equivalents at 1 January	3,063	749
Cash and cash equivalents at 30 June	53,041	8,942

Condensed Consolidated Summary Statement of Changes in Equity

	Unaudited Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Total shareholders' funds at 1 January, as previously reported	13,723	1,790
Issue of new shares	50,000	11,926
Net profit/(loss) from ordinary activities attributable to shareholders	(3,191)	1,175
	60,532	14,891

Notes to unaudited interim financial statements

1. Basis of preparation

The unaudited condensed interim financial statements of the Group for the six months ended 30 June 2004 have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirement of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule").

2. Principal accounting policies

The accounting policies used in the preparation of the unaudited condensed interim financial statements are consistent with those adopted by the Group in its financial statements for the year ended 31 December 2003.

3. Segment information

The principal activities of the Group are principally engaged in the manufacturing and trading of watches and watch components, investments and property holdings.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

The Group's turnover and contribution to operating profit/(loss) by business and geographical segments for the six months ended 30 June 2004 and 2003 are as follows:-

By Business Segment:-

	Manufacturing and selling of watches and watch components		Investments in listed securities		Consolidated	
	Six months ended 30 June					
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External sales	<u>52,055</u>	<u>38,364</u>	<u>4,757</u>	<u>—</u>	<u>56,812</u>	<u>38,364</u>
Results						
Segment result	<u>1,144</u>	<u>1,867</u>	<u>(1,789)</u>	<u>—</u>	<u>(645)</u>	<u>1,867</u>
Unallocated corporate expenses					<u>(2,142)</u>	<u>(1,102)</u>
Other gains					<u>13</u>	<u>1,036</u>
Profit/(loss) from operations					<u>(2,774)</u>	<u>1,801</u>
Finance costs					<u>(417)</u>	<u>(626)</u>
Profit/(loss) before taxation					<u>(3,191)</u>	<u>1,175</u>
Taxation					<u>—</u>	<u>—</u>
Profit/(loss) for the period					<u>(3,191)</u>	<u>1,175</u>

By Geographical Segment:-

	Manufacturing and selling of watches and watch components		Investments in listed securities		Total	
	Six months ended 30 June					
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Hong Kong &						
Mainland China	9,939	7,433	4,757	–	14,696	7,433
Middle East	4,623	7,284	–	–	4,623	7,284
South America	30,580	18,439	–	–	30,580	18,439
United States of America	4,555	2,600	–	–	4,555	2,600
Europe	1,080	1,708	–	–	1,080	1,708
Africa	981	28	–	–	981	28
Asia and Asia Pacific	297	872	–	–	297	872
	52,055	38,364	4,757	–	56,812	38,364

4. Profit/(loss) from operating activities

The profit from operating activities has been arrived at after charging of the following:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	434	1,168
Provision for impairment loss on listed securities Investment	1,755	–

5. Taxation

No provision for Hong Kong and overseas profits tax have been made in the interim financial statements as the assessable profit is absorbed by unused tax losses brought forwards.

No provision for deferred taxation had been made in the interim financial statements as there were no significant temporary differences arising from the period or at the balance sheet date.

6. Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

7. Earnings per share

The calculation of basic earnings/(loss) per share is based on the loss attributable to shareholders of the Company (the "Shareholders") for the six months ended 30 June 2004 of HK\$3.2 million (2003: profit HK\$1.2 million) and on the weighted average of 3,758,568,123 (2003: 1,615,710,980 adjusted by the capital reorganisation in which every 3 shares be consolidated into 1 share) ordinary shares in issue during the period.

The diluted earnings/(loss) per share for both periods is not presented as the effect was anti-dilutive.

8. Trade receivables

The Group generally grants a credit period of 30 to 180 days to its trade customers.

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

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
0-3 months	9,124	9,490
4-6 months	387	2,839
7-12 months	127	–
Over 1 year	–	264
	<u>9,638</u>	<u>12,593</u>

9. Trade payables

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

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
0-3 months	11,223	8,068
4-6 months	3,365	2,221
7-12 months	1,560	1,476
Over 12 months	2,280	3,258
	<u>18,428</u>	<u>15,023</u>

10. Share capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 30 June 2004	<u>10,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2004	4,847,132,942	48,471
Capital reorganisation (Note 1)	(3,231,421,962)	(32,314)
Issue of subscription shares (Note 2)	<u>5,000,000,000</u>	<u>50,000</u>
At 30 June 2004	<u>6,615,710,980</u>	<u>66,157</u>

- Pursuant to a special resolution passed on 6 April 2004, a capital reorganisation was undertaken on 7 April 2004 which involved:
 - share consolidation on the basis that every 3 issued shares of HK\$0.01 each in the share capital of the Company were consolidated into 1 consolidated share of HK\$0.03 each.
 - the nominal value of each of the consolidated share in issue was reduced from HK\$0.03 each to HK\$0.01 each by way of capital reduction. As a result, an amount of HK\$32,314,000 was credited to the contributed surplus account of the Company against the accumulated losses.
- Issue of 5 billion shares of HK\$0.01 each to Perfect View Development Limited ("Perfect View") on 13 April 2004 pursuant to the subscription agreement entered into between the Company and Perfect View on 24 December 2003.

11. Contingent Liabilities

As at 30 June 2004, 32 (2003: 28) 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 30 June 2004 would be approximately HK\$2.7 million (2003: HK\$2.5 million). No provision has been made in this respect, and the Group had no contingent liability in respect of guarantee facilities.

12. Litigations

On 22 May 2002, Synnex Canada Limited ("Synnex"), a supplier of 1024120 Ontario Limited ("Ontario"), a disposed subsidiary of the Company has issued a writ against the Company for trade debt of CAD\$466,472 (equivalent approximately to HK\$2,320,000) due by Ontario. As stated in the statement of claim, the Company has given a cross-corporate guarantee on 16 August 2001 in favour of Synnex for facilities granted to Ontario and since Ontario had defaulted in repayment of its debt, the Company, being the guarantor of the said facilities, was demanded to pay and settle the said debt. However, the Company has never given any such guarantee. The Company has taken legal action to clarify the case. The Company has engaged lawyer in Canada to handle and defend the case. A statement of defence has been submitted to the court to clarify that the Company has not provided guarantee to the plaintiff and the alleged guarantee was forged. As advised by the Company's legal adviser, a motion to dismiss ("Motion") has been submitted to the court, if the Motion is successful, the action instituted by Synnex ("Action") against the Company will be dismissed. However, if the Motion be rejected, the Action will continue and a trial will eventually be scheduled. The Board considered that since alleged guarantee was forged and incomplete, no provision was made in the accounts.

13. Post balance events

Acquisition of interests in a manufacturer of energy saving products

On 9 June 2004, the Company entered into a conditional sale and purchase agreement with Eurofaith Holdings Inc. ("Eurofaith"), pursuant to which, the Company has agreed to acquire from the Vendor 35 shares, representing 35 per cent shareholding interests of the entire issued share capital, of Starway Management Limited ("Starway") at a cash consideration of HK\$50 million (the "Acquisition"). The sole asset of Starway is its equity interests in Shenzhen Dicken Group, which is a manufacturer of energy saving products, including electricity and light saving equipment used in various facilities or machines.

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules, which was approved by the Shareholders at the special general meeting on 30 August 2004. The Acquisition was completed on 14 September 2004.

Issue of convertible notes

On 9 June 2004, the Company entered into a conditional placing agreement with Kingston Securities Limited (the "Placing Agent"), pursuant to which, the Placing Agent has agreed to place, on a fully underwritten basis, to not fewer than six independent professional, corporate or individual investors the convertible notes ("CN") which are proposed to be issued at par in an aggregate principal amount of HK\$20 million. The CN will carry a right to convert into new shares of the Company at a conversion price of HK\$0.02 per share (subject to adjustment). The issue of CN was approved by the Shareholders at the special general meeting on 30 August 2004, and pending the completion on 30 September 2004.

14. Commitments under operating leases

At the balance sheet date, the Group had not entered into any non-cancellable operating leases commitment.

15. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2004, the turnover of the Group was approximately HK\$56.8 million, representing a 48.1% increase as compared to HK\$38.4 million of last corresponding period. Such increase was mainly due to the increase of sales of watches business. The Group's unaudited consolidated loss attributable to the Shareholders was approximately HK\$3.2 million (2003: profit HK\$1.2 million). Such change was mainly due to the provision of impairment loss on securities investments and the professional charges in relation to the capital reorganisation. Loss per share for the period under review was HK\$0.08 cents (2003: profit per share HK\$0.07 cents adjusted by the capital reorganisation).

Liquidity and Capital Resources

As at 30 June 2004, the Group had total borrowings amounted to approximately HK\$10.4 million (2003: HK\$12.3 million) of which HK\$138,000 (2003: HK\$207,000) represents obligations under finance leases and hire purchase contracts and the remaining balance of HK\$10.3 million (2003: HK\$12 million) represents a bank loan which is due on 6 June 2005. The bank loan is secured by the Group's leasehold land and buildings with an annual interest rate of 5.841%. As at 30 June 2004, the Group maintained a cash and bank balances of approximately HK\$53 million with a current ratio of about 1.75 (2003: 0.81).

On 24 December 2003, the Company entered into a conditional subscription agreement with Perfect View for the subscription of 5 billion new shares of HK\$0.01 each (the "Subscription"). The Subscription was completed on 13 April 2004. The net proceed from the Subscription is about HK\$49 million.

As at the balance sheet date, the Group had net current assets about HK\$37.8 million (2003: net current liabilities HK\$9.4 million). The change was mainly due to the Subscription. Subsequent to the balance sheet date, on 14 September 2004, the Group completed the Acquisition of the 35% shareholding interests in Starway from Eurofaith at a consideration of HK\$50 million, as such, the Group proposed to issue HK\$20 million CN, which will be fully underwritten and placed by Kingston Securities Limited to independent investors, the issue and placing of the CN is pending the completion on 30 September 2004. With the issue of HK\$20 million CN, the Group's liquidity position is adequate to maintain its operation and the Board will look into the debt or capital market for additional funding when the Board considers appropriate.

Capital Investments and Commitments

Save for the Acquisition, the Group did not incur or commit any material investments or capital expenditures during the half year under review.

Capital Structure

As at the balance sheet date, the Group had total assets of about HK\$111.8 million (2003: HK\$63.3 million). Current assets were approximately HK\$88.3 million (2003: HK\$39.5 million), while current liabilities were approximately HK\$50.5 million (2003: HK\$48.9 million).

During the half year under review, a capital reorganisation (the “Capital Reorganisation”) was proposed, and completed on 7 April 2004. Pursuant to the Capital Reorganisation, every 3 issued shares of HK\$0.01 each were consolidated into 1 consolidated share with nominal value of HK\$0.03 each, and the nominal value of all the consolidated shares be reduced from HK\$0.03 each to HK\$0.01 each by way of capital reduction. Immediately following the Capital Reorganisation, the Company had 1,615,710,980 new shares of HK\$0.01 each in issue, and the issued share capital of the Company was reduced from an amount of approximately HK\$48.5 million to HK\$16.2 million, and the credit balance of the contributed surplus account of HK\$32.3 million arising from the capital reduction was applied to against the accumulated losses.

Following the Capital Reorganisation on 13 April 2004, the Company issued 5 billion new shares of HK\$0.01 to Perfect View, and Perfect View subsequently placed 543,700,000 shares to independent investors on 16 April 2004. As at the date of this report, the Company had total 6,615,710,980 shares of HK\$0.01 each in issue.

Pledge of Assets

The Group’s leasehold land and buildings in the PRC with a market value of approximately HK\$21.5 million (2003: HK\$21.5 million) were pledged to a bank for the bank loan granted to the Group amounted to approximately HK\$10 million (2003: HK\$12 million).

Contingent liability

As at 30 June 2004, 32 (2003: 28) employees have completed the required number of years of service under 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 30 June 2004 would be approximately HK\$2.7 million (2003: HK\$2.5 million). No provision has been made in this respect and the Group had no contingent liability in respect of guarantee facilities.

Foreign exchange and interest rate exposure

As the Group's sales are mostly based on United States dollar ("USD"), having considered the exchange rate of USD is fairly stable, no foreign exchange and interest rate risk management or related hedges were made at present. Proper policy will be in place when the Board considers appropriate.

Employees and the remuneration policy

As at 30 June 2004, the Group employed a total of approximately 2,200 employees (2003: 1,900) among which 32 employees (2003: 28) are working in Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

BUSINESS REVIEW AND PROSPECT

Energy saving business

Starway and its subsidiaries ("Starway Group") are engaged in business of development, manufacturing and selling of advanced technology energy-saving products including electricity and light saving devices and equipments used or installed in a wide range of facilities and machines, such as lighting systems, air-conditioning systems or manufacturing machinery systems. The technology behind the energy saving products is basically a soft switching system comprising microprocessors, semi-conductors transformers and timing circuits which are designed to work together to regulate and monitor the flow of electricity from the main electricity and delivery stabilised voltage to the end devices (e.g lighting devices and sewing devices, etc.). This monitoring and regulating is designed to lower the electricity consumption and wastage, while durability and stability of the end devices are maintained as well.

The energy saving projects, ranging from large to small scale, mostly relate to public or street lighting systems, government administration units, shopping malls, supermarkets, restaurants and factories, etc. The overall energy saving rates on these projects are ranging from approximately 25% to 34%.

For the years ended 31 December 2002 and 31 December 2003, Starway Group recorded an audited consolidated turnover of approximately HK\$64.7 million and HK\$227.4 million respectively and recorded a consolidated net profit after taxation of approximately HK\$13.1 million and HK\$70.2 million respectively. The audited consolidated net assets of Starway Group as at the year ended 31 December 2003 was approximately HK\$104 million.

Securities investments

During the period under review, the Group, amid extremely volatile market conditions, has reduced its securities investments to a minimal level. As at the balance sheet date, the securities portfolio of the Group, mainly comprised of securities listed in Hong Kong, has a market value of approximately HK\$3.7 million.

Manufacturing and selling of watches and watches components

For the half year ended 30 June 2004, the turnover of the watch business was approximately HK\$52.1 million (2003: HK\$38.4 million), representing an increase of 35.7% over the same period last year. The increase in turnover was primarily resulted from strong sales in South America which is the largest market of the Group. With extensive efforts in marketing and great emphasis to customers relationship, South America market continues to grow, recorded a turnover of HK\$30.6 million accounting for 58.8% of the total turnover of the watch business, and the whole turnover of U.S. accounting for 67.5% of the total.

Turnover of Hong Kong and the PRC for the period was approximately HK\$10 million (2003: HK\$7.4 million) increased by 33.7% over the same period last year. While the turnover of Middle East continued deteriorating under the turbulent situation. U.S., Middle East and Hong Kong are still the major markets of the Group.

Prospect

Following the Subscription in April 2004, the Group's financial position was strengthened and the Group has been looking for investment projects with potential to diversify into other business areas and to improve the earnings of the Group in the long run.

The Board considered that the business of Starway Group is favourably exposed to the rapid economic development of the PRC on the back of the positioning of the country as the "world factory", the business opportunities brought by the entry of the World Trade Organisation, and possible increase in investments under the Closer Economic Partnership Agreement. With a view that it is highly probable that the demand for energy saving products will increase, and that in turn mean fostering more business opportunities, promoting environmental protection and meeting operational needs for a large number of both profit and non-profit making entities in the midst of rapid economic development of the PRC. Furthermore, Starway Group, given its strong revenue and profits base, will strengthen the earning base of and bring growth to the Group.

The watch business will remain as the Group's main business. Despite the turnaround of the watch business, the Group will continue to carefully position and develop the watch business with more emphasis on product development, quality control, customers relationship and marketing strategy so as to further improve the competitiveness of the watch business. It is expected that South America market will remain strong, while the growth potential of the PRC market is unneglectable.

The Board is confident on the economic of Hong Kong, and the Board will continue to capitalise their management expertise and business connection to exploit potential investments opportunities, should such investments help improving the earnings and fostering growth of the Group in the long run.

CHANGE OF THE BOARD

Mr CHEUNG Lik Chung resigned as executive director and ceased to act as the chairman of the Company (the "Chairman") on 13 April 2004. On the same date, Mr CHEUNG Yu Shum, Jenkin has been appointed as executive director and acted as the Chairman. On 17 September 2004, both Mr CHAN Chi Yuen and Mr WONG King Shiu, Daniel have been appointed as independent non-executive directors and members of the Audit Committee of the Company. On the same date, Mr TAM Cheuk Ho resigned as independent non-executive director and member of the Audit Committee of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Shares

At 30 June 2004, the interests, deemed interests, long position and short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules were as follows:

Name of Director	Capacity	Number of Shares		Percentage of issued share capital
		Personal Interest	Corporate Interest	
CHEUNG Yu Shum, Jenkin ("Mr CHEUNG") (Note)	Having an interest in a controlled corporation	–	4,456,300,000	67.36
WONG Kui Tak	Being a beneficial owner	56,666,666	–	0.86

Note: The shares under "Corporate Interest" were held by Pefect View, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr Cheung who is deemed to have interests in the 4,456,300,000 shares of the Company.

Subsequent to the balance sheet date, Mr WONG King Shiu, Daniel has been appointed as independent non-executive director of the Company on 17 September 2004. He is interested in 28,333,333 shares of the Company, representing 0.43% of the issued share capital of the Company as at the date of this report.

Share Options

No share options were granted during the period under the share option scheme adopted on 7 June 2004.

Save as disclosed above, none of the directors of the Company (the "Directors"), chief executive or their associates had or were deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, other than the interests of the directors or the chief executive of the Company as disclosed above, the following persons had interests in the shares of the Company which fall to be disclosed to the Company under section 336 of the SFO:-

Name of Shareholder	Number of Shares	% of issued share capital
Perfect View Development Limited (<i>Note 1</i>)	4,456,300,000	67.36
Mr CHEUNG Yu Shum, Jenkin	4,456,300,000	67.36
Ms CHU Yuet Wah (<i>Note 2</i>)	1,058,343,340	16.00
Kingston Securities Limited (<i>Note 3</i>)	1,000,010,007	15.12
Ms MA Siu Fong (<i>Note 3</i>)	1,000,010,007	15.12

Notes:

1. An investment holding company incorporated in the British Virgin Islands with limited liabilities and is wholly and beneficially owned by Mr CHEUNG, the Chairman and executive Director.
2. Of these 1,058,343,340 shares, 10,007 shares are registered in the name of Kingston Securities Limited ("Kingston Securities") and 58,333,333 shares registered in the name of Kingston Capital Limited ("Kingston Capital"). As Ms CHU Yuet Wah is the controlling shareholder of Kingston Securities and Kingston Capital, she is therefore deemed to be interested in such number of shares.
3. Kingston Securities is deemed to be interested in 1,000,000,000 shares by virtue of it being the Placing Agent. As Ms CHU Yuet Wah and Ms MA Siu Fong are controlling shareholders of Kingston Securities, therefore each of them is, together with the 10,007 held in the name of Kingston Securities, deemed to be interested in 1,000,010,007 shares.

Save as disclosed above, the Company had not been notified of any interest or short position being held by any substantial shareholder in the shares or underlying shares of the Company.

SHARE OPTION SCHEMES

Old Share Option Scheme

The share option scheme of the Company being adopted on 4 July 1996 (the “Old Scheme”) has terminated on 7 June 2004 owing to the enforcement of the new requirements of the Listing Rules in September 2001.

No options were outstanding and no options were granted or exercised during the period.

New Share Option Scheme

A new share option scheme (the “New Scheme”) of the Company was adopted by the shareholders of the Company at the Company’s annual general meeting held on 7 June 2004. The primary purpose of the New Scheme is to provide incentives or rewards to the selected participants for their contribution to the Group.

The total number of shares which options may be granted under the New Scheme is not permitted to exceed 10 per cent of the issued share capital of the Company at any point in time. The maximum number of shares issued under the New Scheme to each eligible participant in any 12-month period is limited to 1 per cent of the issued share capital of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval.

The offer of a grant of share options may be accepted within 7 days from the date of the offer upon payment of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the Board, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the option.

The subscription price is determined by the Board, but in any event may not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

No options were granted under the New Scheme since its inception.

CONNECTED TRANSACTIONS

During the year under review, the Group had no connected transactions.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the Company, namely Mr SHUM Ka Hei, Mr WONG King Shiu, Daniel and Mr CHAN Chi Yuen. Mr TAM Cheuk Ho resigned as the chairman of the Audit Committee on 17 September 2004. On the same date, Mr WONG King Shiu, Daniel was appointed as the chairman of the Audit Committee. The Audit Committee has reviewed the interim financial statement for the six months ended 30 June 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, with the exception that the non-executive directors of the Company have no fixed term of office but are subject to retirement and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

By Order of the Board
Medtech Group Company Limited
CHEUNG Yu Shum, Jenkin
Chairman

Hong Kong, 27 September 2004