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# 邁特科技集團有限公司\*

## MEDTECH GROUP COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1031)

### VERY SUBSTANTIAL ACQUISITION IN RELATION TO ACQUISITION OF INTERESTS IN A MANUFACTURER OF ENERGY SAVING PRODUCTS AND ISSUE OF CONVERTIBLE NOTES

Financial adviser to Medtech Group Company Limited



**KINGSTON CORPORATE FINANCE LIMITED**

Placing agent for the issue of the Convertible Notes



**KINGSTON SECURITIES LIMITED**

#### ACQUISITION OF INTERESTS IN A MANUFACTURER OF ENERGY SAVING PRODUCTS

On 9 June 2004, the Purchaser and the Vendor entered into the conditional Sale and Purchase Agreement, under which the Purchaser has agreed to acquire from the Vendor a 35 per cent shareholding interest in Starway at a cash consideration of HK\$50,000,000. The sole asset of Starway is its equity interests in Shenzhen Dicken Group, which is a manufacturer of energy saving products, including electricity or light saving equipment used in various facilities or machines.

Completion of the Sale and Purchase Agreement is conditional upon, among other things, the satisfaction of the Purchaser on the due diligent investigations conducted by it or its advisers on Starway Group, and shall take place upon fulfillment of all the conditions (or otherwise waived by the Purchaser of certain conditions as provided in the Sale and Purchase Agreement) which is expected to be on or about 31 July 2004 (or such later date as the parties thereto may agree in writing).

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and therefore is subject to approval by Shareholders at the SGM under Rule 14.49 of the Listing Rules. At the SGM, no Shareholder is required to abstain from voting for the approval of the Acquisition.

Circulars containing, among other things, further details of the Acquisition together with notice of SGM for the purpose of approving the Acquisition and the issue of Convertible Notes will be despatched to the Shareholders within 21 days after the publication of this announcement. The SGM will be held on or before 22 July 2004.

#### ISSUE OF CONVERTIBLE NOTES

On 9 June 2004, the Company and the Placing Agent entered into the Placing Agreement, 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, which are proposed to be issued at par in an aggregate principal amount of HK\$20,000,000. The Convertible Notes will carry a right to convert into new Shares at the conversion price of HK\$0.02 per Share (subject to adjustment).

\* For identification purposes only

No application will be made for listing of the Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares falling to be issued upon exercise of the Convertible Notes. The placing of Convertible Notes is conditional upon, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares and the passing of the relevant resolution at the SGM to approve the issue of the Convertible Notes.

A circular of the Company containing, among other things, further details of the Sale and Purchase Agreement and the issue of Convertible Notes, together with notice of SGM will be despatched to the Shareholders within 21 days after the publication of this announcement. The SGM will be held on or before 22 July 2004.

**Shareholders should note that completion of each of the Sale and Purchase Agreement and the Placing Agreement are conditional. Shareholders of the Company and potential investors should exercise caution when dealing in the Shares.**

#### **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 10 June 2004 at the request of the Company pending the issue of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 16 June 2004.

#### **THE SALE AND PURCHASE AGREEMENT**

**Date:** 9 June 2004

**Parties:** Win Matching Limited (as Purchaser)

Eurofaith Holdings Inc. (as Vendor) is beneficially owned as to 50% by each of Mr. Cheng Ming and Mr. Sun Li.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and the two ultimate beneficial owners of the Vendor, Mr. Cheng Ming and Mr. Sun Li, are third parties independent of the Company and the connected persons of the Company. For the avoidance of doubt, the term "connected persons" includes persons referred to in Rule 14A.11 of the Listing Rules.

#### **Assets to be acquired:**

The Purchaser conditionally agreed to acquire from the Vendor 35 shares in Starway, representing 35 per cent of Starway's entire issued share capital.

#### **Consideration:**

HK\$50,000,000 in cash, which was determined with reference to and approximately equal to the audited consolidated net asset value (being approximately HK\$142,389,202 as at 31 March 2004) of the 35 per cent interest in Starway as at 31 March 2004, after arm's length negotiation between the Purchaser and the Vendor. The consideration will be satisfied in cash out of the Group's internal resources upon Completion.

#### **Conditions precedent**

Completion of the Sale and Purchase Agreement is conditional upon, among other things,

1. the Purchaser having conducted due diligence investigations (including but not limited to the legal, financial and business aspects) on Starway (including its subsidiaries) and the results of which are, in the sole and absolute discretion of the Purchaser, satisfactory and acceptable to it in all respects;
2. the Purchaser being satisfied in its sole and absolute discretion that there has been no material adverse change in the financial position of Starway as compared to the unaudited management accounts of Starway for the six months ending 30 June 2004;
3. the passing by the Shareholders in general meeting of the necessary resolution(s) approving the Sale and Purchase Agreement in accordance with the relevant requirements of the Listing Rules;
4. the continued listing and trading in the Shares on the Stock Exchange not being withdrawn or suspended for a period exceeding 21 consecutive trading days or such longer period as the Vendor and the Purchaser may accept in writing as a result of and/or in connection with the Sale and Purchase Agreement;
5. each of Starway and the Vendor having obtained all necessary authorization and approvals in connection with the Sale and Purchase Agreement;
6. the Stock Exchange not having notified the Company the transactions under the Sale and Purchase Agreement will result in Starway being deemed as a new listing application by the Stock Exchange; and
7. all necessary waivers, consents and approvals (if required) from the relevant government or regulatory authorities in Hong Kong required for the Sale and Purchase Agreement and the transactions being obtained.

## **Completion**

Completion shall take place on a date upon the fulfilment of all the conditions to the Sale and Purchase Agreement (or such later date as the parties thereto may agree in writing) which is expected to be on or before 31 July 2004. Upon Completion, the Company will nominate at least one person to the board of directors of Starway and will account for Starway Group on equity accounting basis.

## **Information of the Vendor**

The Vendor is an investment holding company holding the Starway Group. The Vendor is beneficially owned as to 50% by each of Mr. Cheng Ming and Mr. Sun Li, who are independent third parties not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined under the Listing Rules).

## **Information on Starway and its subsidiaries**

Starway is a company incorporated in the British Virgin Islands on 15 September 1998. As at the date of this announcement, Starway is wholly-owned by the Vendor and has an authorised share capital comprises 50,000 shares of US\$1.00 each and has 100 shares in issue.

As at the date of this announcement, Starway solely owned (i) directly the entire issued share capital of Shenzhen Dicken which is a wholly foreign-owned enterprise established under the laws of the PRC and responsible for the operation and sales of energy saving products; and (ii) indirectly, through Shenzhen Dicken, 100% shareholding interest in Shenzhen Dicken Technology Development Limited which is a limited company incorporated in the PRC and holds the patent of energy saving products and is responsible for the development of energy saving projects of Shenzhen Dicken Group. Shenzhen Dicken Group develops, manufactures and sells energy saving products including electricity and light saving devices and equipment used or installed in a wide range of facilities and machines, such as lighting system, air-conditioning systems or manufacturing machinery systems.

Starway Group is engaged in the manufacturing and sales of advanced technology energy-saving products in the PRC. According to the test reports by various PRC authorities including National Center of Supervision & Inspection on Electric Light Source Quality (Shanghai) (國家電光源質量監督檢驗中心(上海)) issued in September 2002 and Shenzhen Academy of Metrology & Quality Inspection (深圳市計量質量檢測研究院) issued in December 2002, the energy saving products of Shenzhen Dicken Group have the energy saving rates ranging from approximately 25% to 28%. Since it is feared that electricity shortage in the PRC may deteriorate in the coming decade, energy saving technology and products will have their developmental and commercial potential in practice, especially in terms of social benefits. The energy saving projects conducted by Starway Group mostly relate to public or street lighting systems, government administration units, shopping malls, supermarkets, restaurants, factories and oil fields, etc. There are small and large-scaled projects: the small-scaled projects relate to restaurants, shops and small arcades through the sale of equipment, and the large-scaled projects relate to large shopping malls, supermarkets, factories and public bodies through the provision and installation of equipment over a term usually extended for years.

For the years ended 31 December 2002 and 31 December 2003, Starway recorded an audited consolidated net profit after taxation of approximately HK\$14.0 million and HK\$69.5 million respectively; and recorded an audited consolidated net profit before taxation (and extraordinary items) of approximately HK\$17.1 million and HK\$84.2 million respectively. For the three months ended 31 March 2004, Starway recorded an audited consolidated net profit of approximately HK\$39,427,628. The audited consolidated net assets of Starway as at 31 March 2004 is approximately HK\$142,389,202. The unaudited consolidated net profit of Starway recorded in its management account as of 31 May 2004 is approximately HK\$81,705,699.

## **REASONS FOR THE PROPOSED ACQUISITION**

The Group is principally engaged in the manufacturing and trading of watches and watch components, the provision of electroplating services, investment holding and property holding.

Following the subscription of new Shares by Perfect View Development Limited in cash in April 2004, the Directors have 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 Directors consider 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 WTO and the possible increase in investment by Hong Kong investors under the CEPA. The Directors therefore take the 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 of a large number of both profit and non-profit-making entities in the midst of rapid economic development of the PRC. The Directors further believe that the Acquisition will strengthen the earning base of and bring growth to the Group and is in the best interest of the Company and the Shareholders as a whole.

For the years ended 31 December 2002 and 31 December 2003, the audited consolidated net loss attributable to the Shareholders was approximately HK\$25,498,000 and HK\$144,000 respectively. As at 31 December 2003, the audited consolidated net asset value of the Group was approximately HK\$13,723,000.

The Directors believe that the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

## **PLACING AGREEMENT**

**Date:** 9 June 2004

**Parties involved:** the Placing Agent and the Company

### **Placing Agent**

The Placing Agent has conditionally agreed with the Company to place, on a fully underwritten basis, to not fewer than six independent professional, corporate or individual investors the Convertible Notes which are proposed to be issued at par in an aggregate principal amount of HK\$20,000,000. The Placing Agent will receive a placing commission of 2.5% on the gross proceeds of the placing of the Convertible Notes in accordance with the aggregate amount underwritten by it, which was arrived at after arm's length negotiations between the Company and the Placing Agent.

The Placing Agent is independent of and not connected with the Company nor with the directors, chief executive or substantial shareholders of the Company, and any of their subsidiaries or any of their respective associates (as defined in the Listing Rules).

### **Placees**

The Placing Agent will place the Convertible Notes to not fewer than six Placees, each of whom (i) will be an independent third party not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined under the Listing Rules); and (ii) is not connected with the other Placees. The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the SGM. No Placees will become substantial Shareholders upon full exercise of the convertible rights attaching to the Convertible Notes.

### **Conditions**

The placing of the Convertible Notes is conditional upon, among other things, the Listing Committee of the Stock Exchange having granted (either unconditionally or subject to conditions to which neither the Company nor the Subscribers shall unreasonably object) listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Notes and the passing of the relevant resolution at the SGM to approve the issue of the Convertible Notes.

If the condition is not fulfilled on or before 31 July 2004 or such later date as may be agreed between the Placing Agent and the Company, the Placing Agreement will lapse and become null and void.

### **Completion**

Completion of the Placing Agreement shall take place on the tenth business day following the date on which the condition thereto is fulfilled.

### **The Convertible Notes**

The terms of the Convertible Notes have been negotiated on arm's length basis and the principal terms of which are summarized below:

#### ***Principal amount***

An aggregate of HK\$20,000,000.

#### ***Interest***

At the rate of 4% per annum on the outstanding principal amount, which is determined after arm's length negotiation between the Company and the Placing Agent, with reference to, among other things, the prime rate and the interest rates of convertible notes issued by other listed companies, payable semi-annually.

#### ***Maturity***

2 years from the date of the issue.

#### ***Denomination***

In multiple of HK\$100,000

#### ***Form***

Registered form only.

### **Conversion price**

HK\$0.02 per Share which is subject to adjustment for, among other matters, sub-division or consolidation of Shares, bonus issues, rights issues and other dilutive events.

This conversion price of HK\$0.02 per Share represents (i) a discount of 23.08% to the closing price of HK\$0.026 per Share on 9 June 2004, being the last trading day immediately prior to this announcement; and (ii) a discount of 16.67% to the average closing price of HK\$0.024 per Share from 3 June 2004 to 9 June 2004, both dates inclusive, being the last five trading days immediately prior to the date of this announcement; and (iii) a discount of 11.50% to the average closing price of HK\$0.0226 per Share from 27 May 2004 to 9 June 2004, both dates inclusive, being the last ten consecutive trading days immediately prior to the date of this announcement.

### **Conversion**

Each holder may convert the whole or part of the principal amount of the relevant Convertible Notes (in multiple of HK\$100,000) into new Shares as determined by dividing the principal amount of the relevant Convertible Notes outstanding at the time of conversion by the conversion price.

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes at the initial conversion price by all holders of the Convertible Notes, the Company will issue an aggregate of 1,000,000,000 new Shares, representing approximately 15.12% of the existing, and approximately 13.13% of the enlarged issued share capital of the Company. The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the SGM.

The market value of the total Conversion Shares will be in aggregate of HK\$26,000,000 based on the closing price of HK\$0.026 per Share on 9 June 2004, being the last trading day immediately prior to this announcement.

Assuming the conversion rights are exercised in full, the shareholding of the holders of the Convertible Notes and the substantial Shareholder immediately before the exercise of the conversion rights in full, and immediately after the exercise of conversion rights in full, are as follows:

<b>Name</b>	<b>Immediately before exercise of the conversion rights in full</b>	<b>%</b>	<b>Immediately after exercise of the conversion rights in full</b>	<b>%</b>
Mr. Wong Kui Tak ( <i>Note 1</i> )	56,666,666	0.86	56,666,666	0.74
Perfect View Development Limited ( <i>Note 2</i> )	4,456,300,000	67.36	4,456,300,000	58.51
Holders of the Convertible Notes	–	–	1,000,000,000	13.13
Public	2,102,744,314	31.78	2,102,744,314	27.62
<b>Total</b>	<b>6,615,710,980</b>	<b>100.00</b>	<b>7,615,710,980</b>	<b>100.00</b>

#### **Notes:**

1. An executive director of the Company.
2. Mr. Cheung Yu Shum, Jenkin, the chairman of the Board and the executive Director, is the beneficial owner of Perfect View Development Limited.

### **Conversion period**

Each of the holders of the Convertible Notes shall have the right at any time after the date of issue of the relevant Convertible Notes to convert all or part of the principal amount of the relevant Convertible Notes outstanding at any time into new Shares at the conversion price of HK\$0.02 per Share provided that an integral multiple of HK\$100,000 be converted at any time and save that if the outstanding principal amount of the relevant Convertible Notes is less than HK\$100,000, the whole (but not part only) of the outstanding principal amount of the relevant Convertible Note must be converted.

### **Ranking**

The Conversion Shares will rank pari passu in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

### **Redemption by the Company**

The Company shall be entitled at any time to redeem the whole or any part of the outstanding principal amount of the relevant Convertible Notes.

### *Status of the Convertible Notes*

The Convertible Notes constitute general and unsecured obligations of the Company and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law. No application will be made for listing of the Convertible Notes.

### *Transferability*

The Convertible Notes are freely transferable, provided that the holders of the Convertible Notes must inform the Company of each transfer or assignment made by them. The Company undertakes to notify the Stock Exchange if any of the Convertible Notes is transferred to a connected person (as defined in the Listing Rules).

### *Events of default*

All Convertible Notes contain an event of default provision which provides that on the occurrence of certain events of default specified in the Convertible Notes (e.g. liquidation), each of the holders of the Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Notes.

### **REASON FOR THE ISSUE OF THE CONVERTIBLE NOTES AND USE OF PROCEEDS**

The Directors consider that the issue of the Convertible Notes is an appropriate means through which the Group can raise funds as it provides the Company with the flexibility to redeem the whole or any part of the outstanding principal amount of the relevant Convertible Notes.

The net proceeds to be raised by the Company from the issue of the Convertible Notes (after deducting the expenses) will amount to approximately HK\$19.2 million. It is the intention of the Company to use the proceeds for general working capital purpose.

### **FUND RAISING IN THE 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT**

<b>Description</b>	<b>Announcement date</b>	<b>Amount raised</b>	<b>Date of mandates granted</b>	<b>Intended use of proceeds as announced</b>	<b>Actual use of proceeds</b>
Placing of 807,854,000 new Shares	9 June 2003	About HK\$8.1 million	30 May 2003	Net proceeds of about HK\$7.9 million for the Company's general working capital for operating activities	HK\$2.6 million for repayment of loan; HK\$1.3 million for general working capital; and HK\$4 million for securities investments
Issue 5,000,000,000 new Shares to Perfect View Development Limited	9 January 2004	About HK\$50 million	6 April 2004	Net proceeds of about HK\$49 million for the general working capital of the Group or for making future investments activities	HK\$0.5 million for general working capital; HK\$48.5 million designated for the Acquisition

### **GENERAL**

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and therefore is subject to approval by Shareholders at the SGM under Rule 14.49 of the Listing Rules. At the SGM, no Shareholder is required to abstain from voting for the approval of the Acquisition.

Circulars containing, among other things, further details of the Acquisition together with notice of SGM for the purpose of approving the Acquisition and the issue of Convertible Notes will be despatched to the Shareholders within 21 days after the publication of this announcement. The SGM will be held on or before 22 July 2004.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares to be issued under the Convertible Notes.

As at the date of this announcement, the executive Directors are Mr. Cheung Yu Shum, Jenkin, Mr. Chu Yuk Kuen, Mr. Wong Kui Tak and Mr. Ng Tak Chak, Nelson, and the independent non-executive Directors are Mr. Tam Cheuk Ho and Mr. Shum Ka Hei.

**Shareholders should note that completion of the Sale and Purchase Agreement and the Placing Agreement are conditional. Shareholders of the Company and the investing public should exercise caution when dealing in the shares in the Company.**

### **SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES**

Trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 10 June 2004 at the request of the Company pending the issue of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 16 June 2004.

## DEFINITIONS

The following words and phrases used in this announcement have the following meaning:

“Acquisition”	the acquisition by the Purchaser from the Vendor of 35 per cent of the entire issued share capital of Starway pursuant to the Sale and Purchase Agreement
“associate”	has the meaning ascribed to it in the Listing Rules
“Company”	Medtech Group Company Limited, a company incorporated in Bermuda with limited liability with its issued Shares listed on the Stock Exchange
“Completion”	completion of the Sale and Purchase Agreement
“Conversion Shares”	the new Shares to be issued by the Company upon the exercise of the conversion rights attaching to the Convertible Notes by the holders thereof
“Convertible Notes”	the convertible notes to be issued by the Company in the aggregate principal amount of HK\$20,000,000 and each being a “Convertible Note”
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing Securities on the Stock Exchange
“Placees”	the placees, each of whom (i) is an independent third party and not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates; and (ii) is not connected with other Placees
“Placing Agent”	Kingston Securities Limited, a deemed licensed corporation to carry on business in types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance, and asset management) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and not a connected person (as defined in the Listing Rules) of the Company
“Placing Agreement”	the conditional placing agreement dated 9 June 2004 and entered into between the Company and the Placing Agent
“PRC”	The People’s Republic of China
“Purchaser”	Win Matching Limited, a wholly owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 9 June 2004, pursuant to which the Purchaser has agreed to acquire from the Vendor a 35 per cent interest in Starway at a cash consideration of HK\$50,000,000
“Shenzhen Dicken”	Shenzhen Dicken Industrial Development Limited, a wholly foreign-owned enterprise established under the laws of the PRC
“Shenzhen Dicken Group”	Shenzhen Dicken and its subsidiaries
“Share”	ordinary share(s) of HK\$0.01 each in the existing share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“SGM”	a special general meeting of the Company to be convened to approve, among other things, the Acquisition and the issue of the Convertible Notes
“Starway”	Starway Management Limited, a limited liability company incorporated under the laws of the British Virgin Islands and wholly-owned by the Vendor
“Starway Group”	Starway and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Europa Holdings Inc., a limited liability company incorporated under the laws of the British Virgin Islands

“HK\$”	Hong Kong dollars
“US\$”	United States dollars
“%” or “per cent”	percentage

By order of the board  
**Medtech Group Company Limited**  
**Cheung Yu Shum, Jenkin**  
*Chairman*

Hong Kong, 15 June 2004

“Please also refer to the published version of this announcement in China Daily”.