THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Medtech Group Company Limited (邁特科技集團有限公司*) (the "Company"), you should at once hand this circular and the enclosed form of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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

A notice convening a special general meeting to be held at Unit 9-10, 10th Floor, Vanta Industrial Centre, 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong, on Monday, 30 August 2004 (or any adjustment thereof) at 10:00 a.m. is set out on pages 101 to 103 of this circular. A form of proxy for use in the special general meeting is enclosed. Whether or not you propose to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the special general meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting thereof, should you so desire.

* *For identification purposes only*

13 August 2004

CONTENTS

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"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
"Announcement"	the announcement dated 15 June 2004 made by the Company in relation to, among other things, the Acquisition and the placing of the Convertible Notes
"associates"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Bye-laws"	bye-laws of the Company
"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, as supplemented by the Supplemental 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 an aggregate principal amount of HK$20,000,000 and each being a "Convertible Note"
"Directors"	directors of the Company
"Enlarged Group"	the Group and Starway Group
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	11 August 2004, being the latest practicable date for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of 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"	a conditional placing agreement dated 9 June 2004 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 conditional sale and purchase agreement dated 9 June 2004 pursuant to which the Purchaser has agreed to acquire from the Vendor a 35 per cent. interests in Starway at a cash consideration of HK$50,000,000
"SGM"	a special general meeting of the Company to be held on Monday, 30 August 2004, the notice of which is set out on pages 101 to 103 of this circular
"Share(s)"	ordinary share(s) of HK$0.01 each in the existing share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shenzhen Dicken"	深圳德勤實業發展有限公司 (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
"Starway"	Starway Management Limited, a limited liability company incorporated under the laws of the British Virgin Islands and wholly and beneficially owned by the Vendor

"Starway Group"	Starway and its subsidiaries
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement to the Sale and Purchase Agreement dated 31 July 2004 entered into between the Purchaser and the Vendor pursuant to which the parties have agreed to extend the date of Completion to a date on or before 31 August 2004
"Supplemental Placing Agreement"	the supplemental placing agreement to the Placing Agreement dated 31 July 2004 entered into between the Company and the Placing Agent pursuant to which the parties have agreed to extend the date of completion of the placing of the Convertible Notes
"Vendor"	Eurofaith Holdings Inc., a limited liability company incorporated under the laws of the British Virgin Islands
"HK GAAP"	accounting principles generally accepted in Hong Kong
"HK$"	Hong Kong dollars
"US GAAP"	accounting principles generally accepted in the United States of America
"US$"	United States dollars
"%" or "per cent."	percentage

For the purpose of illustration only and unless otherwise stated, the translation of US$ into HK$ is based on the exchange rate of US$1.00 = HK$7.80. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

邁特科技集團有限公司*
MEDTECH GROUP COMPANY LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 1031)

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 TAM Cheuk Ho
Mr SHUM Ka Hei

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 1801-1802
18th Floor, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

13 August 2004

To all the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

On 9 June 2004, the Purchaser and the Vendor entered into a conditional Sale and Purchase Agreement, under which the Purchaser has agreed to acquire from the Vendor a 35 per cent. shareholding interests 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 and light saving equipment used in various facilities or machines.

* *For identification purposes only*

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. Pursuant to Rule 14.63, any Shareholder with a material interest in a proposed transaction and his associates will abstain from voting on the resolution(s) approving that transaction. The Directors confirm that at the SGM, to the extent that the Company is aware of after having made all reasonable enquiries, no Shareholder is required to abstain from voting for the approval of the Acquisition.

On 9 June 2004, the Company and the Placing Agent entered into a 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). The Directors confirm that no Shareholder is required to abstain from voting for the approval of the issue of Convertible Notes at the SGM.

The purpose of this circular is to provide, among other things, further details of the Acquisition and issue of the Convertible Notes together with the notice of SGM for considering and, if though fit, to approve at the SGM, the Acquisition and the issue of Convertible Notes. The SGM will be held on 30 August 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 (as defined in the Listing Rules) 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 ordinary 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$144,048,232 presented under HK GAAP (or approximately HK$142,389,202 presented under US GAAP) as at 31 March 2004) of the 35 per cent. interests 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 Group 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 ended 30 June 2004;

3. the Vendor having provided to the Purchaser with the following documents:

   (i) a legal opinion (the form and substance of which are acceptable to the Purchaser) issued by a qualified PRC lawyer confirming that Starway's subsidiaries in the PRC have obtained all certificates, permits, approvals, authorisation and licences for its establishment and business, which are validly subsisting;

   (ii) a certificate of good standing on Starway to be issued by the Registrar of Companies in the British Virgin Islands within 14 days before the date of Completion, confirming among others that Starway is still in good standing; and

   (iii) a joint and several personal guarantee (the forms and contents of which shall be to the satisfaction of the Purchaser) duly executed by the two ultimate beneficial owners of the Vendor securing the obligations of the Vendor under the Sale and Purchase Agreement and warranting to the Purchaser on the net asset value of the Group as at the date of Completion;

4. the Purchaser having received the audited accounts of Starway Group as of 31 March 2004 issued by a firm of independent accountants acceptable to the Purchaser;

5. 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;

6. 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;

7. each of Starway and the Vendor having obtained all necessary authorisation and approvals in connection with the Sale and Purchase Agreement;

8. 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

9. 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 be agreed in writing) which is expected to be on or before 31 July 2004. Pursuant to the Supplemental Agreement, the parties have agreed to extend the date of Completion to be on or before 31 August 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 Group and its business

Starway is a company incorporated in the British Virgin Islands on 15 September 1998. As at the Latest Practicable Date, Starway is wholly and beneficially owned by the Vendor and has an authorised share capital comprises 50,000 ordinary shares of US$1.00 each, of which 100 ordinary shares are issued and fully paid up.

As at the Latest Practicable Date, Starway solely owned (i) directly the entire equity interests 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% equity interests in Shenzhen Dicken Technology Development Limited which is a limited company incorporated in the PRC and holds the patent of energy saving products namely "智能路燈節電器" 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 systems, air-conditioning systems or manufacturing machinery systems.

Starway Group is engaged in the manufacturing and sale of advanced technology energy-saving products in the PRC. According to the test reports issued 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 and the Certificate of Approval ("科學技術成果鑒定証書", 深科鑒字[2003] 第187號) issued by China National Scientific Technology Products Committee ("國家科學技術委員會") dated 4 December 2003, the energy saving products of Shenzhen Dicken Group have the energy saving rates ranging from approximately 25% to 34%. 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 usually, 5 years. As far as the Directors concern, there is no statistics on market share of energy saving products by Starway Group.

The basic technology behind the Starway Group's energy saving products is a soft switching system (the "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 delivery units to the device using such electricity (e.g., lighting devices, sewing devices, etc.). This regulating and monitoring the flow of electricity is designed to lower the use of electricity by such devices, but still maintains the performance of such devices. The energy saving products are designed to be easily installed, with no wiring alterations or circuit modifications, and fully automated upon installation. The principal components of the energy saving products are principally computer chips, circuit boards, transformers and semiconductors. The energy saving products use the Soft Switching System consisting of intelligent control circuit boards made of chipset (software) and work with the transformer (hardware) in stabilizing the voltage.

For the years ended 31 December 2002 and 31 December 2003, Starway recorded an audited consolidated net profit after taxation of approximately HK$13.1 million and HK$70.2 million respectively presented under HK GAAP (or approximately HK$14.0 million and HK$69.5 million respectively presented under US GAAP); and recorded an audited consolidated net profit before taxation (and extraordinary items) of approximately HK$19.9 million and HK$85.5 million respectively presented under HK GAAP (or approximately HK$17.1 million and HK$84.2 million respectively presented under US GAAP). For the three months ended 31 March 2004, Starway Group recorded an audited consolidated net profit of approximately HK$40,068,842 presented under HK GAAP (or approximately HK$39,427,628 presented under US GAAP). The audited consolidated net assets of Starway Group as at 31 March 2004 is approximately HK$144,048,232 presented under HK GAAP (or approximately HK$142,389,202 presented under US GAAP). The unaudited consolidated net profit of Starway Group recorded in its management account as of 31 May 2004 is approximately HK$81,705,699 presented under US GAAP.

REASONS FOR THE 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 for 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 World Trade Organization and the possible increase in investment by Hong Kong investors under the Closer Economic Partnership Arrangement. 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 for 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 interests 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.

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; 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 Placees 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 Convertible Notes and the passing of the relevant resolution at the SGM to approve the issue of the Convertible Notes.

Pursuant to the Supplemental Placing Agreement entered into between the Company and the Placing Agent, the parties have agreed to extend the date of completion of the placing of the Convertible Notes to a date on or before 31 August 2004. If the conditions are not fulfilled on or before 31 August 2004 or such later date as may be agreed in writing 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 conditions thereto are fulfilled.

The Convertible Notes

The Directors consider that all the material terms of the issue of the Convertible Notes have been set out in this Circular. The terms of the Convertible Notes have been negotiated on arm's length basis between the Company and the Placing Agent (for and on behalf of the Placees) and the principal terms of which are summarised 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 (for and on behalf of the Placees), with reference to, among other things, the prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and mainly the interest rates of convertible notes issued by other listed companies, payable semi-annually in arrears.

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 about 23.08% to the closing price of HK$0.026 per Share on 9 June 2004, being the last trading day immediately prior to the date of the Announcement; and (ii) a discount of about 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 the Announcement; and (iii) a discount of about 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 the Announcement; and (iv) a discount of about 78.26% to the closing price of HK$0.0920 per Share as at the Latest Practicable Date. The conversion price was determined on an arm's length basis between the Company and the Placing Agent with reference to the average closing price of HK$0.020 per Share from 10 May 2004 to 9 June 2004, both dates inclusive, being the one-month period prior to the signing of the Placing Agreement.

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 date of the Announcement and in aggregate of HK$92,000,000 based on the closing price of HK$0.0920 per Share as at the Latest Practicable Date.

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:

Name	**Immediately before exercise of the conversion rights in full** *No. of shares*	**Approximate % of issued share capital of the Company**	**Immediately after exercise of the conversion rights in full** *No. of shares*	**Approximate % of issued share capital of the Company**
Mr. Wong Kui Tak *(Note 1)*	56,666,666	0.86	56,666,666	0.74
Perfect View Development Limited *(Note 2)*	4,456,300,000	67.36	4,456,300,000	58.51
Public:				
Holders of the Convertible Notes	–	–	1,000,000,000	13.13
Other Shareholders	2,102,744,314	31.78	2,102,744,314	27.62
Total	6,615,710,980	100.00	7, 615,710,980	100.00

Notes:

1. An executive Director.

2. Mr. Cheung Yu Shum, Jenkin, the chairman of the Board and an 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.

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 upon Conversion.

The general mandate to issue shares in the capital of the Company granted to the Board pursuant to the ordinary resolutions passed by Shareholders at the annual general meeting on 7 June 2004 (the "General Mandate") has not been utilized. Since the Conversion Price represents a discount of 20% or more to the benchmarked price of securities set out in Rule 13.36 (5) of the Listing Rules, the Company may not issue any securities pursuant to the General Mandate to issue shares in the capital of the Company according to Rule 13.36(5) and a special mandate shall be sought at the SGM to authorise the Directors to allot and issue shares in the share capital of the Company upon conversion of the Convertible Notes (whether in whole or in part) pursuant to the terms and conditions of the Convertible Notes. The Conversion Shares will be issued upon exercise of the conversion rights attached to the Convertible Notes subject to the passing of the relevant resolution at the SGM. Upon Conversion, the Conversion Shares will be issued to holders of the Convertible Notes without utilization of the General Mandate.

FUND RAISING IN THE 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THE ANNOUNCEMENT

Description	Announcement date	Amount raised	Date of mandates granted	Intended use of proceeds as announced	Actual use of proceeds
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 to an independent third party (the loan was made in November 2002, which have an interest rate of 12% per annum); HK$1.3 million for general working capital; and HK$4 million for securities investments (Securities investment is one of the business segments of the Company. The Company considered that applying such net proceeds for investment in listed securities is in the interest of the Company.)
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

SPECIAL GENERAL MEETING

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. Pursuant to Rule 14.63, any Shareholder with a material interest in a proposed transaction and his associates will abstain from voting on the resolution(s) approving that transaction. At the SGM, no Shareholder is required to abstain from voting for the approval of the Acquisition.

A notice of the SGM is set out on pages 101 to 103 of this circular. The meeting will be held at Unit 9-10, 10th Floor, Vanta Industrial Centre, 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong on Monday, 30 August 2004 (or any adjournment thereof) at 10:00 a.m.. Ordinary resolutions will be proposed to consider and, if thought fit, to be passed by Shareholders to approve the implementation, completion and giving effect to the Acquisition and the transactions contemplated thereunder and the issue of Convertible Notes.

Shareholders should note that completion of the Sale and Purchase Agreement as supplemented by the Supplemental Agreement and the Placing Agreement as supplemented by the Supplemental Placing Agreement are conditional. Shareholders and the investing public should exercise caution when dealing in the Shares.

A form of proxy for use at the SGM is enclosed in this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for holding of the SGM. Completion of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Bye-laws 66 to 70 of the Bye-laws set out the procedures under which a poll may be demanded.

A resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by the member.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution.

If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. There shall be no requirement for the chairman to disclose the voting figures on a poll.

A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.

The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier and a demand so withdrawn shall not be taken to have invalidated the result of a show of hands declared before the demand was made.

RECOMMENDATION

The Directors consider that the terms, conditions and reasons for the Acquisition and the placing of the Convertible Notes are fair and reasonable and are in the best interests of the Company and its Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of all the relevant resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Please refer to the appendices to this circular for additional information.

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

(A) FINANCIAL SUMMARY

The following is a summary of the audited consolidated income statements of the Company for each of the three years ended 31 December 2003 and the audited consolidated balance sheets as at each of the three years ended 31 December 2003 as extracted from the audited financial statements and the annual reports of the Group for the relevant years.

Consolidated Income Statement

	For the years ended		
	31 December 2003	**31 December 2002**	**31 December 2001**
	HK$'000	*HK$'000*	*HK$'000*
		(As restated)	(As restated)
Turnover	90,022	112,825	113,132
Cost of sales	(73,670)	(119,357)	(117,543)
Gross profit/(loss)	16,352	(6,532)	(4,411)
Other revenues	250	283	66
Distribution costs	(1,952)	(2,911)	(2,859)
Administrative expenses	(17,335)	(20,021)	(32,636)
Other operating gains/(expenses)	381	(6,968)	(8,382)
Other gains	3,482	15,220	28,663
Profit/(loss) from operating activities	1,178	(20,929)	(19,559)
Finance costs	(1,038)	(926)	(674)
Impairment loss on goodwill	–	–	(703)
Loss on disposal of subsidiaries	–	(3,596)	–
Profit/(loss) before taxation	140	(25,451)	(20,936)
Taxation	(284)	(47)	(246)
Loss attributable to shareholders	(144)	(25,498)	(21,182)
Dividends	–	–	–
Basic loss per share – current year/prior year as previously reported	(0.003 cents)	(0.740 cents)	(0.64 cents)
As retrospectively restated	(0.003 cents)	(0.740 cents)	(0.64 cents)

Consolidated Balance Sheet

	31 December 2003	**31 December 2002**	**31 December 2001**
	HK$'000	*HK$'000*	*HK$'000*
		(As restated)	(As restated)
Non-current assets			
Fixed assets	23,045	21,923	25,799
Deferred tax assets	810	579	584
Goodwill	–	–	9,960
	23,855	22,502	36,343
Current assets			
Inventories	12,337	10,492	28,309
Trade receivables	12,593	14,322	13,378
Prepayments, deposits and other receivables	3,581	1,600	2,539
Other loan receivable	–	4,856	–
Other investments	7,909	–	–
Tax recoverable	–	–	84
Cash and bank balances	3,063	749	9,773
	39,483	32,019	54,083
Current liabilities			
Trade payables	15,023	17,415	19,563
Other payable and accruals	20,209	16,389	22,938
Amounts due to directors	15	809	9
Amount due to a substantial shareholder	33	394	5,395
Other loan	–	2,500	–
Current portion of obligations under finance leases	207	448	1,254
Tax payable	1,316	2,023	2,786
Bank loans – secured	12,055	–	1,496
Bank overdrafts – unsecured	–	24	–
	48,858	40,002	53,441
Net current (liabilities)/assets	(9,375)	(7,983)	642
Total assets less current liabilities	14,480	14,519	36,985

	31 December 2003	31 December 2002	31 December 2001
	HK$'000	*HK$'000*	*HK$'000*
		(As restated)	(As restated)
Capital and reserves			
Share capital	48,471	36,393	33,459
Reserves	(34,748)	(34,545)	(9,221)
Shareholders' funds	13,723	1,848	24,238
Non-current liabilities			
Obligations under finance leases – due after one year	–	–	92
Bank loans – secured	–	12,150	12,150
Deferred tax liabilities	757	521	505
	757	12,671	12,747
	14,480	14,519	36,985

(B) AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Set out below is the text of the qualified auditors' report for the year ended 31 December 2002 as extracted from the 2002 annual report of the Company. Reference to page numbers in the auditors' report and the audited financial statements of the Group refer to the page numbers of the 2002 annual report of the Company.

For the year ended 31 December 2002

TO THE SHAREHOLDERS OF
MEDTECH GROUP COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 22 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. However, the accounting records of some subsidiaries which had been engaged in the business of distribution of computer components and were disposed of during the year (the "Disposed Group") for the period from 1 January 2002 up to the date of disposal have not been made available to the Company and us. The Company has consolidated the Disposed Group based on the unaudited management accounts for the six months period ended 30 June 2002. There was no other satisfactory audit procedure that we could adopt to ascertain whether there are any misstatements in the amounts included in the consolidated profit and loss account and whether the disclosures which have incorporated amounts in relation to the Disposed Group as included in notes to accounts are fairly stated.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the basis adopted in the preparation of the Group's accounts. The Group's loss attributable to the shareholders was HK$25,477,000 for the year ended 31 December 2002 and at that date its net current liabilities were approximately HK$8 million. Subsequent to the balance sheet date, the Company has entered into a conditional placing agreement with a placing agent for the placing of 400,000,000 ordinary shares of HK$0.01 each. The net proceeds of the placing of approximately HK$3.9 million will be used as the Group's general working capital for operating activities. The accounts have been prepared on a going concern basis, the validity of which depends upon financial support from its creditors and shareholders. The accounts do not include any adjustments that would result from failure to obtain such supports. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

Qualified opinion arising from limitation of scope

Except for any adjustments which might have been found necessary had we been able to obtain sufficient evidence concerning the Disposed Group, in our opinion the accounts give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work relating to the Disposed Group:

– we have not obtained all the information and explanation we considered necessary for the purpose of the audit; and

– we were unable to determine whether proper books of account had been kept.

Graham H.Y. Chan & Co.
Certified Public Accountants

Hong Kong, 28 April 2003

The following is the audited consolidated financial statements of the Company for the year ended 31 December 2003 together with accompanying notes, extracted from the Company's annual report for the year ended 31 December 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2003

	Note	**2003** *HK$'000*	**2002** *HK$'000* (As restated)
Turnover	*4*		
Continuing operation		90,022	103,380
Discontinued operation		–	9,445
		90,022	112,825
Cost of sales		(73,670)	(119,357)
Gross profit/(loss)		16,352	(6,532)
Other revenues	*4*	250	283
Distribution costs		(1,952)	(2,911)
Administrative expenses		(17,335)	(20,021)
Other operating gains/(expenses)		381	(6,968)
Other gains		3,482	15,220
Profit/(loss) from operating activities	*6*		
Continuing operation		1,178	(20,482)
Discontinued operation		–	(447)
		1,178	(20,929)
Finance costs	*7*		
Continuing operation		(1,038)	(926)
Discontinued operation		–	–
		(1,038)	(926)
Loss on disposal of subsidiaries		–	(3,596)
Profit/(loss) before taxation		140	(25,451)
Taxation	*8*		
Continuing operation		(284)	(47)
Discontinued operation		–	–
		(284)	(47)
Loss attributable to shareholders	*9*	(144)	(25,498)
Dividends	*10*	–	–
Basic loss per share	*11*		
– current year/prior year as previously reported		(0.003 cents)	(0.740 cents)
As retrospectively restated		(0.003 cents)	(0.740 cents)

CONSOLIDATED BALANCE SHEET
As at 31 December 2003

	Note	2003 HK$'000	2002 HK$'000 (As restated)
Non-current assets			
Fixed assets	13	23,045	21,923
Deferred tax assets	24	810	579
		23,855	22,502
Current assets			
Inventories	15	12,337	10,492
Trade receivables	16	12,593	14,322
Prepayments, deposits and other receivables		3,581	1,600
Other loan receivable		–	4,856
Other investments	17	7,909	–
Cash and bank balances	18	3,063	749
		39,483	32,019
Current liabilities			
Trade payables	19	15,023	17,415
Other payable and accruals		20,209	16,389
Amounts due to directors	20	15	809
Amount due to a substantial shareholder	21	33	394
Other loan		–	2,500
Current portion of obligations under finance leases	22	207	448
Tax payable		1,316	2,023
Bank loans – secured	23	12,055	–
Bank overdrafts – unsecured		–	24
		48,858	40,002
Net current liabilities		(9,375)	(7,983)
Total assets less current liabilities		14,480	14,519
Capital and reserves			
Share capital	25	48,471	36,393
Reserves		(34,748)	(34,545)
Shareholders' funds		13,723	1,848
Non-current liabilities			
Bank loans – secured	23	–	12,150
Deferred tax liabilities	24	757	521
		757	12,671
		14,480	14,519

BALANCE SHEET

As at 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Fixed assets	13	–	181
Investments in subsidiaries	14	6,325	4,856
		6,325	5,037
Current assets			
Prepayments and deposits		3,338	90
Cash and bank balances		75	1
		3,413	91
Current liabilities			
Amount due to a substantial shareholder	21	33	394
Other payable and accruals		1,537	3,583
Other loan		–	2,500
		1,570	6,477
Net current assets/(liabilities)		1,843	(6,386)
Total assets less current liabilities		8,168	(1,349)
Capital and reserves			
Share capital	25	48,471	36,393
Reserves	27	(40,303)	(37,742)
Shareholder's fund/(Capital deficiency)		8,168	(1,349)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Share capital	Share premium account	Capital reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002						
– as previously reported	33,459	179,543	814	140	(189,797)	24,159
Effect on adopting SSAP 12 (revised)	–	–	–	–	79	79
– as restated	33,459	179,543	814	140	(189,718)	24,238
Issue of shares	2,934	233	–	–	–	3,167
Share issuing expenses	–	(59)	–	–	–	(59)
Exchange realignment	–	–	–	(28)	–	(28)
Disposal of subsidiaries	–	–	–	28	–	28
Loss for the year	–	–	–	–	(25,498)	(25,498)
At 31 December 2002	36,393	179,717	814	140	(215,216)	1,848
At 1 January 2003						
– as previously reported	36,393	179,717	814	140	(215,274)	1,790
Effect on adopting SSAP 12 (revised)	–	–	–	–	58	58
– as restated	36,393	179,717	814	140	(215,216)	1,848
Issue of shares	12,078	–	–	–	–	12,078
Exchange realignment	–	–	–	95	–	95
Share issue expenses	–	(154)	–	–	–	(154)
Loss for the year	–	–	–	–	(144)	(144)
At 31 December 2003	48,471	179,563	814	235	(215,360)	13,723

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 *HK$'000*	2002 *HK$'000*
Net cash from/(used in) operating activities	*28*	1,762	(11,687)
Investing activities			
Purchase of fixed assets		(701)	(790)
Purchase of other investments		(7,906)	–
Disposal of subsidiaries		–	98
Sale of fixed assets		–	145
Net cash used in investing activities		(8,607)	(547)
Financing activities			
Issue of shares		12,078	3,167
Share issuing expenses		(154)	(59)
Other loans raised		2,050	3,000
Repayment of other loans		(4,550)	(500)
Payment of capital element of finance leases		(241)	(898)
Net cash from financing activities		9,183	4,710
Net increase/(decrease) in cash and cash equivalents		2,338	(7,524)
Cash and cash equivalents at 1 January		725	8,277
Effect of foreign exchange rates change		–	(28)
Cash and cash equivalents at 31 December		3,063	725
Analysis of balances of cash and cash equivalents			
Cash and bank balances		3,063	749
Bank overdrafts		–	(24)
		3,063	725

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 10 April 1996 under the Companies Act 1981 of Bermuda. The Company's shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 July 1996. The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 14 to the accounts.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA") which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the profit and loss account liability method, i.e. a liability was recognised in respect of timing differences between the taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profits with limited exceptions. In the absence of any specific transitional provisions in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2003 have been reduced by HK$58,000, which is the cumulative effect of the change in policy on the results for periods prior to 2003. The effect of the change is an increased charge to income taxes in the current year of HK$5,000 (2002: HK$21,000).

3. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the HKSA. The accounts are prepared under the historical cost convention as modified by the revaluation of certain properties and other investments. The principal accounting policies adopted are as follows:

Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power or holds more than half of the issued share capital, or controls the composition of the board of directors, or by way of having power to govern its financial and operating policies so that the Group obtains benefits from their activities.

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 unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and 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 for impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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 goods are delivered to customers and the title has passed.

Sale proceeds of other investments are recognised on a trade date basis.

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

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's 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.

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 stated at cost less accumulated depreciation and accumulated impairment. Depreciation of fixed assets is calculated to write off their cost on a straight-line basis over their estimated useful lives to the Group. The principal annual rates used for this purpose 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 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.

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.

Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets 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 their estimated useful lives.

(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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

Other investments

Other investments are measured at fair value with unrealised gains and losses included in net profit or loss for the year.

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.

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.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts.

Taxation

Income tax represents the sum of the current tax and deferred tax.

Current tax is the expected tax payable on the taxable profit for the year. Individual companies within the Group provide for profit tax on the basis of the company's profit for financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for profits tax purposes. The Group's liability for current tax is calculated using tax rate enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax basis used in computation of taxable profit, and is accounted using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Translation of foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences arising from these cases are dealt with in the consolidated profit and loss account.

On consolidation, the accounts of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Segment reporting

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

4. REVENUE AND TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the manufacturing and selling of watches and watch components, and investment in listed securities. Revenues recognised during the year are as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Turnover		
Sale of watches and watch components	85,270	103,380
Distribution of computer components	–	9,445
Proceeds from sale of listed equity securities	4,752	–
	90,022	112,825
Other revenues		
Interest income	–	172
Other income	250	111
	250	283
Total revenues	90,272	113,108

5. SEGMENTAL INFORMATION

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

(a) By business segment

For management purposes, the Group is currently organised into two divisions, namely manufacturing and selling of watches and watch components, and investment in listed securities.

The following tables represent revenue and profit/(loss) information on each of the above business segments for the years ended 31 December 2002 and 2003, and certain assets and liabilities information regarding business segments at 31 December 2002 and 2003.

	Manufacturing and selling of watches and watch components (continuing operation)		Investments in listed securities (continuing operation)		Distribution of computer components (discontinued operation)		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover								
External sales	85,270	103,380	4,752	–	–	9,445	90,022	112,825
Results								
Segment result	3,312	(16,041)	1,583	–	–	(447)	4,895	(16,488)
Interest income							–	172
Unallocated corporate expenses							(3,717)	(4,613)
Profit/(loss) from operations							1,178	(20,929)
Finance costs							(1,038)	(926)
Loss on disposal of subsidiaries	–	–	–	–	–	(3,596)	–	(3,596)
Profit/(loss) before taxation							140	(25,451)
Taxation							(284)	(47)
Loss for the year							(144)	(25,498)
Assets								
Segment assets	51,956	53,904	7,909	–	–	–	59,865	53,904
Unallocated corporate assets							3,473	617
							63,338	54,521
Liabilities								
Segment liabilities	46,198	45,643	279	–	–	–	46,477	45,643
Unallocated corporate liabilities							3,138	7,030
							49,615	52,673
Other information								
Capital expenditure	701	790	–	–	–	–		
Depreciation	1,543	3,225	–	–	–	–		
Non-cash (income)/expenses other than depreciation	(2,148)	991	(3)	–	–	–		

(b) Geographical segment information about these businesses is presented below:

The following in the analysis of the Group's sales by geographical market:

	Manufacturing and selling of watches and watch components (continuing operation)		Investment in listed securities (continuing operation)		Distribution of computer components (discontinued operation)		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and Mainland China	15,899	35,650	4,752	–	–	3,282	20,651	38,932
Middle East	16,292	22,026	–	–	–	–	16,292	22,026
Canada	–	900	–	–	–	6,163	–	7,063
South America	40,126	31,667	–	–	–	–	40,126	31,667
North America	6,228	1,416	–	–	–	–	6,228	1,416
Europe	5,534	7,982	–	–	–	–	5,534	7,982
Other locations	1,191	3,739	–	–	–	–	1,191	3,739
	85,270	103,380	4,752	–	–	9,445	90,022	112,825

The following is an analysis of the carrying amount of segment assets by location of assets:

	Manufacturing and selling of watches and watch components (continuing operation)		Investment in listed securities (continuing operation)		Distribution of computer components (discontinued operation)		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and Mainland China	42,525	43,539	7,909	–	–	–	50,434	43,539
Middle East	6,148	8,084	–	–	–	–	6,148	8,084
South America	–	542	–	–	–	–	–	542
North America	1,332	–	–	–	–	–	1,332	–
Europe	1,379	1,342	–	–	–	–	1,379	1,342
Other locations	572	397	–	–	–	–	572	397
Unallocated corporate							3,473	617
							63,338	54,521

The following is an analysis of the capital expenditures by location of assets:

	Manufacturing and selling of watches and watch components (continuing operation)		Investment in listed securities (continuing operation)		Distribution of computer components (discontinued operation)		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and Mainland China	701	790	–	–	–	–	701	790

6. OPERATING PROFIT/(LOSS)

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

	2003	2002
	HK$'000	*HK$'000*
Cost of inventories sold	81,600	110,260
(Reversal)/provision for obsolete and slow moving inventories	(7,930)	9,097
Auditors' remuneration	330	330
Depreciation	1,646	3,363
Amortisation of goodwill	–	2,490
Staff costs (excluding directors' remuneration) – *note*		
– salaries, bonus, allowances and benefits in kind	6,436	8,560
– provision for long service payment	1,837	–
– retirement benefits scheme contributions	219	332
Operating lease rentals:		
Hire of office equipment	19	19
Land and buildings	1,410	1,619
Other operating gains/(expenses)		
Loss on disposal of fixed assets	81	97
Other loss	–	4,050
(Recovery of bad debt)/provision for bad debt	(462)	2,821
Other gains		
Reversal of provision for advances to a supplier	–	(12,387)
Revaluation (surplus)/deficits in respect of leasehold land and buildings	(2,148)	991
Unrealised gain on other investments	(3)	–
Waiver of accrued salaries due to directors *(note 12)*	(105)	(2,206)
Waiver of accrued salaries due to ex-directors *(note 12)*	(206)	(241)
Waiver of other payables	(1,020)	(1,377)

Note: Staff costs here are excluding directors' emoluments which are disclosed in note 12 below and direct labour costs of HK$16,451,000 (2002: HK$17,522,000) which are included in cost of inventories sold.

7. FINANCE COSTS

	2003	2002
	HK$'000	*HK$'000*
Interest expense on bank loans and overdrafts	930	786
Other loan interest	76	119
Hire charges	32	21
	1,038	926

8. TAXATION

	2003	2002
	HK$'000	*HK$'000*
Current tax – Hong Kong profits tax		
– Under provision in previous years	–	26
– Provided for the year	279	–
	279	26
Deferred tax *(note 24)*		
– Current year	10	21
– Attributable to a change in tax rate in Hong Kong	(5)	–
	5	21
Tax charge for the year	284	47

(a) Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.

No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

(b) The charge for the year can be reconciled to the profit/(loss) per the consolidated profit and loss account as follow:

	2003	2002
	HK$'000	*HK$'000*
Profit/(loss) before tax	140	(25,451)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	25	(4,072)
Tax effect of expenses that are not deductible in determining taxable profit	984	5,301
Tax effect of income that are not taxable in determining taxable profit	(317)	(5,168)
Tax effect of offshore income/expenses not taxable/(deductible) in determining taxable profit	(126)	1,607
Utilisation of tax losses previously not recognised	(844)	(8)
Increase in opening deferred tax liability resulting from an increase in Hong Kong profits tax rate	(5)	–
Deferred tax assets not recognised	567	2,361
Underprovision in previous years	–	26
	284	47

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK$2,407,000 (2002: HK$1,590,000).

10. DIVIDENDS

No dividends had been paid or declared by the Company during the year (2002: Nil).

11. LOSS PER SHARE

(a) The calculation of basic loss per share is based on the loss attributable to shareholders of HK$144,000 (2002: HK$25,498,000, restated for the effect of adopting SSAP 12 (Revised)) and the weighted average of 4,357,930,909 (2002: 3,445,046,453) ordinary shares in issue.

(b) Diluted loss per share for both year has not been presented as the effect of any dilution is anti-dilutive.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	2003	**2002**
	HK$'000	*HK$'000*
Fees:		
Executive directors	–	–
Independent non-executive directors	–	77
	–	77
Other emoluments of executive directors:		
Salaries and allowances	646	2,663
Retirement scheme contributions	7	63
	653	2,726
	653	2,803

During the year, four executive directors waived their salaries for the period from 1 January 2003 to 15 March 2003 to the total amount of approximately HK$311,000. The amounts have been included in the above disclosure. During the year ended 31 December 2002, four executive directors waived the accrued salaries in an aggregate amount of HK$2,206,000 for the two years ended 31 December 2002. Apart from this, no directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2002 and 2003.

The emoluments of each of the directors were less than HK$1,000,000 for both years.

(b) The five highest paid individuals during the year included nil (2002: four) directors, details of whose emoluments are set out in note 12 (a) above. The remaining individuals whose emolument fell within the band of nil to HK$1,000,000, is as follows:–

	2003	**2002**
	HK$'000	*HK$'000*
Salaries and allowances	1,650	488
Retirement scheme contributions	52	12
	1,702	500

No emoluments were paid or payable to the directors or senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2002 and 2003.

13. FIXED ASSETS

Group

	Leasehold land and buildings outside Hong Kong held under medium term leases	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000* *(note d)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
Brought forward	20,148	–	6,473	39,430	9,079	2,066	77,196
Additions, at cost	–	–	–	199	502	–	701
Adjustment on revaluation	1,387	–	–	–	–	–	1,387
Disposal/write off	–	–	–	–	(568)	–	(568)
Carried forward	21,535	–	6,473	39,629	9,013	2,066	78,716
Aggregate depreciation							
Brought forward	–	–	6,393	38,384	8,430	2,066	55,273
Charge for the year	761	–	20	519	346	–	1,646
Adjustment on revaluation	(761)	–	–	–	–	–	(761)
Eliminated on disposal	–	–	–	–	(487)	–	(487)
Carried forward	–	–	6,413	38,903	8,289	2,066	55,671
Net book value							
At 31 December 2003	21,535	–	60	726	724	–	23,045
At 31 December 2002	20,148	–	80	1,046	649	–	21,923

The analysis of the cost or valuation of the above assets at 31 December 2003 is as follows:

At cost	–	–	6,473	39,629	9,013	2,066	57,181
At 2003 valuation	21,535	–	–	–	–	–	21,535
	21,535	–	6,473	39,629	9,013	2,066	78,716

The analysis of the cost or valuation of the above assets at 31 December 2002 is as follows:

At cost	–	–	6,473	39,430	9,079	2,066	57,048
At 2002 valuation	20,148	–	–	–	–	–	20,148
	20,148	–	6,473	39,430	9,079	2,066	77,196

(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 2003.

(b) The carrying amount of leasehold land and buildings as at 31 December 2003 would have been HK$22,096,000 (2002: HK$22,857,000) had they been stated at cost less accumulated depreciation.

(c) As at 31 December 2003, the net book value of plant and machinery held by the Group under finance leases amounted to nil (2002: nil).

(d) Construction in progress ("CIP") represents the cost of construction in respect of the Group's new production facility in the PRC where construction has yet to be completed to its original intended use. Up to 31 December 2003, the Group has 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 to its original intended use. In view of these circumstances, the directors have made full provision in respect of the aggregate construction costs of HK$9,043,000 during the four years ended 31 December 2000.

The CIP is currently temporarily used by the Group as warehouse. As at 31 December 2003, the open market value of the CIP, as revalued by AA Property Services Limited, an independent professional valuer, amounted to HK$7,965,000 (2002: HK$7,452,000). In the opinion of the directors, as the relevant Real Estate Title Certificate has not been obtained, no reversal of provision has been made in the accounts.

(e) The leasehold land and building were pledged to the bank for banking facilities granted to the Group (note 23).

Company

	Furniture and fixtures	**Computer equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
Brought forward	319	241	560
Disposal/write off	(319)	(241)	(560)
Carried forward	–	–	–
Aggregate depreciation			
Brought forward	177	202	379
Charge for the year	64	39	103
Eliminated on disposal	(241)	(241)	(482)
Carried forward	–	–	–
Net book value			
At 31 December 2003	–	–	–
At 31 December 2002	142	39	181

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
Investments at cost – unlisted shares *(note a)*	69,532	69,532
Amounts due from subsidiaries *(note b)*	262,366	260,768
Less: provision	(325,573)	(325,444)
	6,325	4,856

(a) The table below listed 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 net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At 31 December 2003, the Company held shares in the following principal subsidiaries:–

Name of company	Place of incorporation/ establishment	Paid up registered/ issued share capital	Percentage of equity held by the Company	Principal activities
Shares held directly:–				
Million-Well Enterprises Corp.#	British Virgin Islands	US$130,000	100%	Investment holding
Lifecycle Investments Limited#	British Virgin Islands	US$1	100%	Investment holding
Ever Dynasty Limited#	British Virgin Islands	US$1	100%	Investments in listed securities
Whole Win Limited#	British Virgin Islands	US$1	100%	Inactive
Shares held indirectly:–				
Medtech (H.K.) Company Limited	Hong Kong	HK$2	100%	Investment holding
City Check Limited*	British Virgin Islands	US$10,000	100%	Manufacturing of watches and watch components
Dongguan Queshi Watch Co. Ltd.	The People's Republic of China	HK$15,400,000	100%	Manufacturing of watch components and property holding
Easy Rich Watch Dial Factory Limited	Hong Kong	HK$10,000	100%	Trading of watch dials
Funwell Industrial Company Limited	Hong Kong	HK$10,000	100%	Trading of leather watch straps
Hangfer Company Limited	Hong Kong	HK$10,000	100%	Trading of watch cases
Silver Crystal Manufacturing Company Limited	Hong Kong	HK$10,000	100%	Trading of watch glasses

Name of company	Place of incorporation/ establishment	Paid up registered/ issued share capital	Percentage of equity held by the Company	Principal activities
Stime Watch Manufacturing Limited#	British Virgin Islands	US$50,000	100%	Trading of watches and watch components and property holding
Stime Watch Manufacturing Company Limited	Hong Kong	HK$10,000	100%	Trading of watches
Vanfer Electroplating Factory Limited	Hong Kong	HK$10,000	100%	Electroplating of watch components
Wing Fat Watch Band Factory Limited	Hong Kong	HK$10,000	100%	Trading of metal watch bands

Companies operate principally in Hong Kong instead of in their respective places of incorporation/establishment.

* *Companies operate principally in the People's Republic of China instead of in their respective places of incorporation/establishment.*

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. INVENTORIES

	2003	2002
	HK$'000	*HK$'000*
Raw material	3,489	5,454
Work in progress	6,344	4,672
Finished goods	2,504	366
	12,337	10,492

At 31 December 2003, the inventories that were carried at net realisable value amounted to HK$12,337,000 (2002: HK$10,492,000).

16. 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 trade receivables at the balance sheet date:

	2003	2002
	HK$'000	*HK$'000*
0 – 3 months	9,490	12,950
4 – 6 months	2,839	1,339
7 – 12 months	–	28
Over 1 year	264	5
	12,593	14,322

17. OTHER INVESTMENTS

	2003	2002
	HK$'000	*HK$'000*
Listed equity investment, at fair value	7,909	–
At market value	7,909	–

18. 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$11,000 (2002: HK$122,000).

19. TRADE PAYABLES

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

	2003	2002
	HK$'000	*HK$'000*
0 – 3 months	8,068	9,770
4 – 6 months	2,221	1,909
7 – 12 months	1,476	2,833
Over 12 months	3,258	2,903
	15,023	17,415

20. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand.

21. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

The amount is unsecured, interest-free and has no fixed term of repayment.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable:				
Amount due within one year, included under current liabilities	207	207	448	448

23. BANK LOAN – SECURED

The bank loan is due on 16 May 2004 and is secured by leasehold land and buildings of the Group.

24. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movement thereon during the current and prior reporting periods.

	Accelerated tax depreciation *HK$'000*	**Other assets** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2002				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP 12 (revised)	(505)	56	528	79
– as restated	(505)	56	528	79
Charge to consolidated profit and loss account	(16)	–	(5)	(21)
At 31 December 2002 and 1 January 2003	(521)	56	523	58
Effect of change in tax rate	(49)	5	49	5
(Charge)/credit to consolidated profit and loss account	(187)	(23)	200	(10)
At 31 December 2003	(757)	38	772	53

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

	2003 *HK$'000*	**2002** *HK$'000*
Deferred tax liabilities	(757)	(521)
Deferred tax assets	810	579
	53	58

At 31 December 2003, the Group has unused tax losses of HK$8,167,000 (2002: HK$3,724,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$772,000 (2002: HK$523,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$7,395,000 (2002: HK$3,201,000) due to the unpredictability of future profit streams.

As at 31 December 2003 and 2002, the Company had no material unprovided deferred tax assets/ liabilities.

25. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2002 and 2003	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2002	3,345,930,726	33,459
Issue of shares	293,348,216	2,934
At 31 December 2002 and 1 January 2003	3,639,278,942	36,393
Issue of shares	1,207,854,000	12,078
At 31 December 2003	4,847,132,942	48,471

Notes:

(i) On 25 March 2003, the Company entered into a placing agreement with Kingston Securities Limited ("KSL"), a placing agent, for placing up to a total of 400,000,000 new ordinary shares at a price of HK$0.01 per share to independent investors. The placing price represented (i) the closing price of HK$0.01 per share as quoted on the Stock Exchange on 25 March 2003; and (ii) the average of the closing price per share of HK$0.01 as quoted on the Stock Exchange for the ten trading days ended 25 March 2003. The placing was completed on 8 April 2003. The net proceeds of the placing of approximately HK$3.9 million were used as the Group's general working capital for operating activities.

(ii) On 9 June 2003, the Company entered into another placing agreement with KSL, for placing up to a total of 807,854,000 new ordinary shares at a price of HK$0.01 per share to independent investors. The placing price represented (i) the closing price of HK$0.01 per share as quoted on the Stock Exchange on 9 June 2003; and (ii) the average of the closing price per share of HK$0.01 as quoted on the Stock Exchange for the ten trading days ended 9 June 2003. The placing was completed on 23 June 2003. The net proceeds from the placing of approximately HK$7.9 million were used as the Group's general working capital for operating activities.

26. EMPLOYEE BENEFIT

The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

Under a share option scheme approved by the shareholders of the Company on 4 July 1996 (the "Scheme"), the directors of the Company may, at their discretion, invite any employee and any executive director of the Company or its subsidiaries, to take up options at HK$1 per option to subscribe for shares in the Company. The primary purpose of the Scheme was designed to provide incentives to directors and eligible employees.

The total number of the shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the date of expiry of the option as may be determined by the directors of the Company which shall not exceed three years commencing on the expiry of six months after the date of the option is accepted and expiring on the last day of such three year period or 3 July 2006 whichever is the earlier. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Details of options outstanding as at 31 December 2003 are as follows:

	Number of share options
As at 1 January 2003	150,000,000
Lapsed during the year	(150,000,000)
As at 31 December 2003	–

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 22 of the accounts.

Company	**Share premium account**	**Contributed surplus** *(note a)*	**Accumu-lated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	179,543	69,332	(285,201)	(36,326)
Issue of shares	233	–	–	233
Share issuing expenses	(59)	–	–	(59)
Loss for the year	–	–	(1,590)	(1,590)
At 31 December 2002 and 1 January 2003	179,717	69,332	(286,791)	(37,742)
Share issuing expenses	(154)	–	–	(154)
Loss for the year	–	–	(2,407)	(2,407)
At 31 December 2003	179,563	69,332	(289,198)	(40,303)

(a) 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.

(b) The Company had no reserve available for distribution as at 31 December 2003 and 2002.

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit/(loss) before taxation to cash flow from/(used in) operating activities is set out below:

	2003	**2002**
	HK$'000	*HK$'000*
Profit/(loss) before taxation	140	(25,451)
Adjustments for:		
(Reversal of)/provision for obsolete and slow-moving inventories	(7,930)	9,097
Revaluation (surplus)/deficits in respect of leasehold land and buildings	(2,148)	991
Unrealised gain on other investments	(3)	–
Waiver of accrued salaries due to directors	(105)	(2,206)
Waiver of accrued salaries due to ex-directors	(206)	(241)
Waiver of other payables	(1,020)	(1,377)
Depreciation of fixed assets	1,646	3,363
Amortisation of goodwill	–	2,490
Loss on disposal of subsidiaries	–	3,596
Loss on disposal of fixed assets	81	97
Operating loss before working capital changes	(9,545)	(9,641)
Decrease in inventories	6,085	8,682
Decrease/(increase) in trade receivable, prepayments, deposits and other receivables	4,604	(5,979)
Decrease in trade payables, other payables and accruals, including amounts due to directors and a substantial shareholder	1,604	(4,045)
Cash from/(used in) operations	2,748	(10,983)
Hong Kong profits tax paid	(986)	(790)
Overseas tax paid	–	(26)
Hong Kong profits tax refund	–	28
Overseas tax refund	–	84
Net cash from/(used in) operating activities	1,762	(11,687)

29. POST BALANCE SHEET EVENT

On 9 January 2004, the Company proposed to effect a capital reorganisation (the "Capital Reorganisation"). On 6 April 2003, the Capital Reorganisation was approved in a special general meeting by the Company's shareholders. The Capital Reorganisation involves the following:

(i) the share consolidation (the "Share Consolidation) pursuant to which every three issued shares will be consolidated into one consolidated share ("Consolidated Share"); and

(ii) the capital reduction (the "Capital Reduction") under which the nominal value of all the issued Consolidated Shares be reduced from HK$0.03 each to HK$0.01 each by way of a reduction of capital pursuant to Section 46 of the Companies Act 1981 of Bermuda so that the issued share capital of the Company will be reduced from an amount of HK$48,471,329.42 to HK$16,157,109.80 upon completion of the Share Consolidation and the Capital Reduction. The credit of approximately HK$32 million that arise as a result of the Capital Reorganisation will be credited to contributed surplus account of the Company and set off part of the consolidated accumulated loss of the Company as at 31 December 2003.

On 24 December 2003, the Company entered into a conditional subscription agreement with Perfect View Development Limited (the "Subscriber") for the subscription of shares of the Company. Pursuant to the subscription agreement, the subscriber will subscribe for the 5,000,000,000 New Shares (being ordinary shares of HK$0.01 each in the capital of the Company after the Capital Reorganisation) at an issue price of HK$0.01 per New Share upon the completion of the Capital Reorganisation (the "Subscription Shares"). The issue price of each Subscription Share of HK$0.01 (equivalent to approximately HK$0.0033 per old share) represents a discount of approximately 72.5% to the closing price of HK$0.012 per share as quoted on the Stock Exchange on 23 December 2003, being the last trading day in the shares on the Stock Exchange prior to the publication of the capital reorganisation announcement. The net proceeds of approximately HK$49 million will be used as general working capital of the Group or for making future investments should there be appropriate investment opportunity identified by the Group. The subscription of shares was completed on 13 April 2004.

30. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office equipment, falling due as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Within one year	2	19
In the second to fifth years inclusive	–	2
	2	21

31. LITIGATION

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, were demanded to pay and settle the said debt. However, according to the directors, the Company has never given any such guarantee. The Company has taken legal action to clarify the case, and the Company was advised by its legal adviser and the Canada legal representative that evidentially the guarantee is fake and the guarantee documents are incomplete, therefore a motion of dismiss is proposed and yet to be submitted to the court to strike off the case. As such, except the legal costs for the defence which is estimated to be approximately HK$700,000, no provision on the alleged guarantee was made in the accounts.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28 April 2004.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountant, K. W. Poon & Co., Certified Public Accountants, Hong Kong.

K. W. Poon & Co.
Certified Public Accountants

Room 1802, 18th Floor,
Sunbeam Commercial Building,
469-471 Nathan Road, Kowloon,
Hong Kong

13 August 2004

The Directors
Medtech Group Company Limited
Unit 1801-1802
18th Floor, Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

Dear Sirs,

We set out below our report on the consolidated financial information relating to Starway Management Limited ("Starway"), Shenzhen Dicken Industrial Development Limited ("Dicken Industrial"), and Shenzhen Dicken Technology Development Limited ("Dicken Technology") for each of the three years ended 31 December 2003 and the three months ended 31 March 2004 for inclusion in the shareholders' circular of Medtech Group Company Limited dated 13 August 2004.

Starway, Dicken Industrial and Dicken Technology are principally engaged in the manufacturing of energy saving products for use in commercial and industrial savings.

Starway was incorporated in the British Virgin Islands on 15 September 1998. Dicken Industrial and Dicken Technology were incorporated in the People's Republic of China on 20 November 1996 and 9 November 1999 respectively.

Prior to the acquisition on 15 December 2003, Dicken Technology and Dicken Industrial exchanged 100% of their common shares for 100 shares of Starway under a reorganisation plan (hereinafter collectively referred to as "Starway Group"). The transfer has been accounted for as a reorganisation of entities under common control as the companies were beneficially owned by identical shareholders, and share common management and technology. The financial statements have been prepared as if the reorganisation had occurred retroactively.

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain property, plant and equipment and investment property and in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants.

The accompanying consolidated financial statements include the accounts of Starway and its 100% owned subsidiaries, Dicken Technology and Dicken Industrial.

We have also prepared this report on the basis set out in Section 1 below in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the consolidated results of Starway Group for the relevant period and of the consolidated balance sheets of Starway Group as at 31 March 2004 (the "Summaries"), set out in this report have been prepared based on the audited financial statements of the operations in Starway, Dicken Industrial and Dicken Technology now comprising Starway Group on the basis set out in Section 1 below.

In our opinion, the Summaries set out below together with the notes thereto, for the purpose of this report, and on the basis of presentation set out below, give a true and fair view of the consolidated results and cash flows of Starway Group for the relevant periods and of the consolidated balance sheets of Starway Group as at 31 December 2001, 2002, 2003 and 31 March 2004 in accordance with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

I. FINANCIAL INFORMATION

(A) Consolidated income statements

The following is a summary of the consolidated results of the Starway Group for each of the three years ended 31 December 2003 and the three months ended 31 March 2004, prepared on the basis set out in Section 1 below, after making such adjustments as we consider appropriate:–

		Year ended 31 December			Three months ended 31 March
		2001	**2002**	**2003**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*(3)*	43,895	64,712	227,370	68,662
Cost of sales		(31,231)	(38,871)	(137,186)	(24,457)
Gross profit		12,664	25,841	90,184	44,205
Other revenue	*(4)*	952	3,042	12,546	1
Distribution cost		(590)	(492)	(1,528)	(306)
Administrative expenses		(3,334)	(3,104)	(4,488)	(1,344)
Other operating expenses		(2,015)	(5,369)	(11,196)	(2,449)
Profit from operations	*(5)*	7,677	19,918	85,518	40,107
Finance cost	*(6)*	–	–	(4)	(2)
Profit before taxation		7,677	19,918	85,514	40,105
Taxation	*(7)*	(1,241)	(6,802)	(15,289)	(36)
Profit attributable to shareholders		6,436	13,116	70,225	40,069

(B) Consolidated balance sheets

The following is a summary of the consolidated balance sheets of the Starway Group as at 31 December 2001, 2002 and 2003 and 31 March 2004 which is presented on the basis as set out in Section 1 below:–

		Year ended 31 December			Period ended 31 March
		2001	**2002**	**2003**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Fixed assets	*(12)*	6,125	5,746	5,835	4,364
Patent rights	*(13)*	1,697	1,777	1,557	1,502
Long-term accounts receivables	*(17)*	7,541	15,928	99,337	100,683
		15,363	23,451	106,729	106,549
CURRENT ASSETS					
Current portion – patent rights		188	220	220	220
Inventories	*(15)*	3,276	12,903	4,943	8,964
Trade receivables, net	*(16)*	4,871	10,914	33,543	19,801
Current portion – accounts receivables	*(17)*	–	8,445	17,157	22,285
Subscription receivables		–	4,706	–	–
Prepayments and other receivables		841	5,728	5,027	6,075
Amounts due from a director and related parties	*(18c)*	22	1,228	1,636	5,618
Cash and cash equivalents		19	382	164	49,024
		9,217	44,526	62,690	111,987

		Year ended 31 December			Period ended 31 March
		2001	2002	2003	2004
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CURRENT LIABILITIES					
Amounts due to related parties	*(18c)*	–	604	509	502
Current portion – obligations under finance leases	*(20)*	–	–	98	98
Trade payables		1,905	17,316	19,657	22,835
Tax payable	*(7)*	225	7,055	37,832	41,297
Accrued expenses		101	156	135	164
Other payables		3,588	4,133	5,146	6,928
Deposits received		3,580	4,768	1,827	2,549
		9,399	34,032	65,204	74,373
NET CURRENT ASSETS/ (LIABILITIES)		(182)	10,494	(2,514)	37,614
TOTAL ASSETS LESS CURRENT LIABILITIES		15,181	33,945	104,215	144,163
NON-CURRENT LIABILITIES					
Obligations under finance leases	*(20)*	–	–	(139)	(115)
		15,181	33,945	104,076	144,048
SHARE CAPITAL AND RESERVES					
Share capital	*(22a)*	–	–	1	1
Reserves	*(22b)*	15,181	33,945	104,075	144,047
		15,181	33,945	104,076	144,048

(C) Consolidated cash flow statements

		Year ended 31 December			Three months ended 31 March
		2001	2002	2003	2004
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities					
Net cash inflow/(outflow) generated from operations	*19*	3,185	489	(4,478)	48,920
Investing activities					
Purchase of fixed assets		(3,175)	(126)	(862)	(35)
Sales of fixed assets		–	–	182	–
Interest received		9	–	1	1
Interest paid		–	–	(4)	(2)
Net cash (outflow) from investing activities		(3,166)	(126)	(683)	(36)
Net cash inflow/(outflow) before financing activities		19	363	(5,161)	48,884
Financing activities					
Inception/(Repayment) of finance lease		–	–	237	(24)
Proceeds from issuance of common stock		–	–	4,706	–
Net cash inflow/(outflow) from financing activities		–	–	4,943	(24)
Increase/(Decrease) in cash and cash equivalents		19	363	(218)	48,860
Cash and cash equivalents at beginning of the years/period		–	19	382	164
Cash and cash equivalents at end of the years/period		19	382	164	49,024
Analysis of balances of cash and cash equivalents					
Cash and bank balances		19	382	164	49,024

(D) Consolidated statements of changes in equities

	Issued capital HK$'000	Special reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2001	–	4,714	–	596	3,435	8,745
Transfer to statutory reserve	–	–	–	965	(965)	–
Net profit for the year	–	–	–	–	6,436	6,436
Balance at 31 December 2001	–	4,714	–	1,561	8,906	15,181
Increase in capital reserve	–	5,656	–	–	–	5,656
Transfer to statutory reserve	–	–	–	3,582	(3,582)	–
Exchange fluctuation reserve	–	–	(8)	–	–	(8)
Net profit for the year	–	–	–	–	13,116	13,116
Balance at 31 December 2002	–	10,370	(8)	5,143	18,440	33,945
Share issued as consideration for the acquisition of the entire issued share capital of subsidiary pursuant to the group reorganisation	1	(1)	–	–	–	–
Transfer to statutory reserve	–	–	–	(76)	76	–
Exchange fluctuation reserve	–	–	(94)	–	–	(94)
Net profit for the year	–	–	–	–	70,225	70,225
Balance at 31 December 2003	1	10,369	(102)	5,067	88,741	104,076
Exchange fluctuation reserve	–	–	(97)	–	–	(97)
Net profit for the period	–	–	–	–	40,069	40,069
Balance at 31 March 2004	1	10,369	(199)	5,067	128,810	144,048

II. NOTES TO THE FINANCIAL INFORMATION

1. Basis of presentation

The summary of the consolidated results and consolidated cash flow statements of Starway Group for the relevant periods has been prepared as if the current structure had been in existence throughout the relevant periods. The summary of the consolidated balance sheet of Starway Group as at 31 December 2001, 2002, 2003 and 31 March 2004 has been prepared to present the state of affairs of Starway Group as if the current structure had been in existence as at that dates. All significant intercompany transactions and balances have been eliminated on combination.

At the date of this report, Starway Group had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/established outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:–

Name of companies	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest %		Principal activities
			Direct	Indirect	
Shenzhen Dicken Industrial Development Limited	PRC	RMB10,000,000	100%	–	Manufacturing of energy saving products
Shenzhen Dicken Technology Development Limited	PRC	RMB1,000,000	–	100%	Manufacturing of energy saving products

The financial information has been prepared in accordance with the accounting policies set out in Section 2.

2. Principal accounting policies

The principal accounting policies adopted by Starway Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong are set out below:–

(A) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Starway Group and when the revenue can be measured reliably, on the following basis:–

(i) Revenues associated with the sales of energy saving products and all other items are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer.

(ii) Interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rates applicable.

(B) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised as asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statements, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

(C) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statements in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over the following estimated useful lives, at the following rates per annum:–

Buildings	4.5%
Motor vehicles	10% – 18%
Office equipment	18% – 20%
Furniture and fixtures	18% – 20%
Plant and machinery	9%

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

(D) Inventories

Inventories represent trading goods and are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in-first-out basis. Net realisable value is based on the estimated selling price less any estimated costs to be incurred to completion and disposal.

(E) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(F) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statements.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(G) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(H) Cash equivalents

For the purpose of the consolidated cash flow statements, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advance from banks repayable within three months from the date of the advance. For the purpose of the consolidated balance sheets, cash and bank balances represent assets which are not restricted as to use.

(I) Borrowing costs

Borrowing costs are expensed in the consolidated income statements in the period which they are incurred, except to the extent that such costs are capitalised as being directly attributable to the acquisition or construction of an asset which necessary takes a substantial period of time to get ready for its intended use.

(J) Trade and long-term accounts receivables

Provisions are made against trade and long-term accounts receivables to the extent they are considered to be doubtful. Trade and long-term accounts receivables in the consolidated balance sheets are stated net of such provisions.

(K) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated income statements on a straight-line basis over the lease periods.

(L) Patent rights

Patent rights represent licence fees prepaid and/or payable under licensing agreements for the reproduction and distribution of energy saving products in specified geographical areas and time periods.

Patent rights are stated at cost less amortisation.

The portion of patent rights expected to be recouped within twelve months of the balance sheet date is reported as a current asset. The portion of patent rights expected to be recouped in more than twelve months from the balance sheet date is reported as a non-current asset.

3. Turnover

Turnover represents the net invoiced value of the sales of energy savings products during the relevant periods, after allowances for returns and trade discounts, and after elimination of all significant intra-group transactions.

4. Other revenue

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	9	–	1	1
Other income	943	3,042	12,545	–
	952	3,042	12,546	1

No business segment information is presented as all of Starway Group's turnover and operating profit are earned from the sales of energy saving products.

No geographical segment information is presented as all of Starway's turnover and operating profit are earned in the PRC and all operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

A gain on disposals of fixed assets for RMB1 arised from sale of a property of the subsidiary, Dicken Industrial to the director, Mr. Cheng Ming on 31 March 2004.

5. Profit from operations

Profit from operations is stated after charging the following:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of patent	–	204	220	55
Bad debts written off	–	2,352	3,632	52
Cost of inventories sold	31,231	38,871	137,186	24,457
Depreciation				
– Owned fixed assets	365	505	567	150
– Leased fixed assets	–	–	24	10
Staff costs (including directors' emoluments) *(Note 11)*	2,915	2,410	2,916	1,254
Operating lease rental for land and buildings	–	46	319	186
Directors' remuneration				
– As director	–	–	–	–
– For management	–	–	–	–

6. Finance cost

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest expenses on:–				
Obligations under finance leases	–	–	4	2
	–	–	4	2

7. Taxation

(i) Taxation in the consolidated income statements represents:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Profits Tax	–	–	–	–
Overseas taxation	1,241	6,802	15,289	36
	1,241	6,802	15,289	36

(ii) Taxation in the consolidated balance sheets represents:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current year provision				
Hong Kong	–	–	–	–
Elsewhere in the PRC	225	7,055	37,832	41,297
	225	7,055	37,832	41,297

No provisions for Hong Kong profits tax had been made as Starway Group did not generate any assessable profits arising in Hong Kong in respect of the relevant periods.

Taxes on profits assessable elsewhere had been calculated at the applicable rates of tax prevailing in the jurisdictions in which Starway Group operates, based on existing legislation, interpretations and practices in respect thereof, in respect of the relevant periods.

No provision for deferred tax had been made as Starway Group did not have any significant unprovided deferred tax liabilities in respect of relevant periods.

8. Dividends

No dividends have been paid or declared by Starway Group and its subsidiaries since their date of incorporation.

9. Emoluments of directors and five highest paid employees

(A) Directors' emoluments

Details of the emoluments paid to the directors of Starway Group during the relevant periods are as follows:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–
Basic salaries, Allowances and benefits in kind	–	–	–	–
Bonus	–	–	–	–
Retirement benefits	–	–	–	–
	–	–	–	–

All directors did not receive any emoluments during the relevant periods.

No directors of Starway Group waived any emoluments during the relevant periods.

The number of directors of Starway Group whose emoluments fell within the following bands:–

	Year ended 31 December			Three months Ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Emolument bands				
Nil to HK$1,000,000	–	–	–	–

No remuneration was paid to any non-executive directors of Starway Group in their capacity as such during the relevant periods.

(B) Five highest paid individuals

The five individuals whose emoluments were the highest in Starway Group are as follows:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Directors	–	–	–	–
Non-director employees	5	5	5	5
	5	5	5	5

Information relating to the emoluments of the two directors has been disclosed above. Details of the emoluments of the five highest paid, non-director employees during the relevant periods are as follows:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Basic salaries, allowances and benefits in kind	260	379	515	161
Discretionary bonuses	–	–	–	–
Retirement benefits	–	–	–	–
	260	379	515	161

The number of the highest paid, non-director employees whose emoluments fell within the following band are as follows:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	5	5	5	5

During the relevant periods, no emoluments were paid by Starway Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining Starway Group or as compensation for loss of office.

10. Retirement benefits

As stipulated by the regulations of PRC, Starway Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. Starway Group is required to make contributions to the retirement plans at rates ranging from 0% to 13% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. Starway Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. Starway Group's contributions for the year ended 31 December 2003 and for the three-month period ended 31 March 2004 were RMB40,045 (or equivalent to HK$37,736) and RMB12,241 (or equivalent to HK$11,515) respectively.

11. Staff costs (including directors' emoluments)

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Wages and salaries	2,557	2,376	2,916	1,117
Medical insurance, staff welfare and other allowances	358	34	–	137
	2,915	2,410	2,916	1,254

12. Fixed assets

	Buildings	Furniture and fixtures	Plant and machinery	Office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2001	2,763	181	228	118	318	3,608
Additions	2,117	141	649	268	–	3,175
At 1 January 2002	4,880	322	877	386	318	6,783
Additions	–	2	–	124	–	126
At 1 January 2003	4,880	324	877	510	318	6,909
Additions	–	–	–	22	840	862
Disposals	–	–	(252)	–	–	(252)
At 1 January 2004	4,880	324	625	532	1,158	7,519
Additions	–	–	–	35	–	35
Disposals	(1,688)	–	–	–	–	(1,688)
At 31 March 2004	3,192	324	625	567	1,158	5,866
Accumulated depreciation						
At 1 January 2001	213	8	50	7	15	293
Charge for the year	259	25	36	30	15	365
At 1 January 2002	472	33	86	37	30	658
Charge for the year	220	58	79	91	57	505
At 1 January 2003	692	91	165	128	87	1,163
Charge for the year	218	59	66	122	126	591
Disposals	–	–	(70)	–	–	(70)
At 1 January 2004	910	150	161	250	213	1,684
Charge for the period	55	14	14	33	44	160
Disposals	(342)	–	–	–	–	(342)
At 31 March 2004	623	164	175	283	257	1,502
Net book value						
At 31 December 2001	4,408	289	791	349	288	6,125
At 31 December 2002	4,188	233	712	382	231	5,746
At 31 December 2003	3,970	174	464	282	945	5,835
At 31 March 2004	2,569	160	450	284	901	4,364

One of the properties of the subsidiary, Dicken Industrial was sold to the director, Mr. Cheng Ming on 31 March 2004. Selling price of the property was based on its net book value plus RMB1, and the proceeds receivable was debited to his current account with Dicken Industrial.

The aggregate net book value of Starway Group's fixed assets held under finance leases as at 31 December 2003 and 31 March 2004 were approximately HK$395,622 and HK$285,137 respectively.

The buildings of Starway Group are all situated in the PRC.

13. Patent rights

Starway Group has licensed the use of several patents from its founder for a period of ten years. The licences expire in July 2010. The licences are being amortised over the licence period of ten years using the straight-line method.

		At 31 December		At 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Patent rights, at cost	1,885	2,201	2,201	2,201
Accumulated amortisation	–	(204)	(424)	(479)
Patent rights, net	1,885	1,997	1,777	1,722
Current portion	(188)	(220)	(220)	(220)
Non-current portion	1,697	1,777	1,557	1,502

Amortistion expenses for the years ended 31 December 2002, 2003 and 31 March 2004 are HK$204,343, HK$220,037 and HK$54,912 respectively.

14. Ultimate holding company

The directors of Starway Group consider the ultimate holding company to be Eurofaith Holdings Inc., a company incorporated in British Virgin Islands on 2 July 1999.

15. Inventories

		At 31 December		At 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw material	1,752	5,955	1,379	3,277
Work in progress	–	198	–	283
Finished goods	1,524	6,750	3,564	5,404
	3,276	12,903	4,943	8,964

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items on a first-in-first-out basis.

16. Trade receivables

Details of the ageing analysis of the trade receivables are as follows:–

		At 31 December		At 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-3 months	1,962	5,782	33,543	19,801
4-6 months	2,909	5,132	–	–
	4,871	10,914	33,543	19,801

17. Long-term accounts receivables

	At 31 December			At 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivables	7,541	24,373	116,494	122,968
Less: Amounts receivable within one year included in current assets	–	8,445	17,157	22,285
Long-term accounts receivables	7,541	15,928	99,337	100,683

The portion of long-term accounts receivables expected to be received within twelve months of the balance sheet date is included in current assets. The portion of long-term accounts receivables expected to be received in more than twelve months from the balance sheet date is included in non-current assets.

18. Related party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) During the relevant periods, the directors are of the view that the following companies are related parties of Starway Group:–

Name	**Relationship with Starway Group**
Mr. CHENG Ming	Director of Starway, Dicken Industrial and Dicken Technology
Mr. CHENG Yi Feng	Relative of former shareholder of Dicken Industrial and shareholder of Dicken Technology
Mr. CHENG Zhong Dong	Former shareholder of Dicken Industrial
Mr. CHEUNG Shu Wen	Former shareholder of Dicken Technology

(b) During the relevant periods, the directors were of the view that the following related party transactions were carried out in the normal course of business of Starway Group:–

Name of the related parties	**Nature of Transactions**	**Year ended 31 December**			**Three months ended 31 March**
		2001	**2002**	**2003**	**2004**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Shenzhen Dicken Technology Development Limited	Sales of finished goods	–	–	294	658
Mr. CHENG Ming	Purchase of property from the subsidiary, Dicken Industrial	–	–	–	1,347

Selling prices of finished goods were determined with reference to the prevailing market prices and the prices charged to or by third parties.

Selling price of the property was based on its net book value plus RMB1.

(c) As at the 31 December 2001, 2002, 2003 and 31 March 2004, the directors were of the view that the following related party balances were attributed to the above-mentioned related party transactions during the years/period and other ordinary business transactions. These related party balances are all unsecured, interest-free and have no fixed term of repayment.

		At 31 December		**At 31 March**
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from a director and related parties				
– Mr. CHENG Ming	–	1,094	1,477	2,932
– Mr. CHENG Yi Feng	22	134	159	2,686
	22	1,228	1,636	5,618

The maximum balance outstanding for the director, Mr. Cheng Ming during the year ended 31 December 2002 and 2003, and the period ended 31 March 2004 were HK$1,093,570, HK$1,476,804 and HK$2,932,221 respectively.

		At 31 December		**At 31 March**
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to related parties				
– Mr. CHEUNG Shu Wen	–	6	–	–
– Mr. CHENG Zhong Dong	–	598	509	502
	–	604	509	502

19. Notes to consolidated cash flow statements

Reconciliation of profit before taxation to net cash inflow/(outflow) generated from operations:–

	Year ended 31 December			Three months ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before taxation	7,677	19,918	85,514	40,105
Depreciation of fixed assets	365	505	591	160
Interest income	(9)	–	(1)	(1)
Interest expenses	–	–	4	2
Proceeds from sale of fixed assets	–	–	–	1,346
Exchange fluctuation reserve	–	(8)	(94)	(97)
Capital reserve	–	5,656	–	–
Profit for the years/period before working capital changes	8,033	26,071	86,014	41,515
(Increase)/Decrease in intangible asset – patent rights	(1,885)	(112)	220	55
(Increase)/Decrease in inventories	(3,276)	(9,627)	7,960	(4,021)
(Increase)/Decrease in trade receivables	(4,871)	(6,043)	(22,629)	13,742
(Increase) in accounts receivables	(7,541)	(16,832)	(92,121)	(6,474)
(Increase) in subscription receivables	–	(4,706)	–	–
(Increase)/Decrease in prepayments and other receivables	4,589	(4,887)	701	(1,048)
(Increase) in amounts due from a director and related parties	(22)	(1,206)	(408)	(3,982)
Increase/(Decrease) in amounts due to related parties	–	604	(95)	(7)
Increase in trade payables	1,905	15,411	2,341	3,178
Tax (receivable)/payable	(1,016)	28	15,488	3,429
Increase/(Decrease) in accrued expenses	101	55	(21)	29
Increase in other payables	3,588	545	1,013	1,782
Increase/(Decrease) in deposits received	3,580	1,188	(2,941)	722
Net cash inflow/(outflow) generated from operations	3,185	489	(4,478)	48,920

20. Obligations under finance leases

	At 31 December			At 31 March
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	–	106	106
In the second year	–	–	150	123
In the third to fifth year	–	–	–	–
	–	–	256	229
Future financial charges on financial leases	–	–	(19)	(16)
Present value of finance lease liabilities	–	–	237	213
The present value of finance lease liabilities are as follows:–				
Current portion				
Within one year	–	–	98	98
Non-current portion				
In the second year	–	–	98	98
In the third to fifth year	–	–	41	17
	–	–	139	115
	–	–	237	213

21. Operating lease commitments

At 31 December, 2001, 2002, 2003 and 31 March 2004, Starway Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings falling due as follows:–

	Year ended 31 December			Three months ended 31 March
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	131	537	493
Two to five years	–	65	1,810	1,807
Over five years	–	–	226	113
	–	196	2,573	2,413

22. Share capital and reserves

(a) Share capital

	Year ended 31 December			Period ended 31 March
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised,				
50,000 shares of US$1 each	–	–	390	390
Issued and fully paid,				
100 shares of US$1 each	–	–	1	1

(i) Starway was incorporated on 15 September 1998 with authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each.

(ii) On 15 December 2003 as part of the group reorganisation, Starway issued an aggregate of 100 ordinary shares of US$1 each credited as fully paid as consideration for the acquisition of the entire issued share capital of Dicken Industrial.

(b) Reserves

(i) Special reserve

The special reserve of Starway Group represents the difference between the nominal value of the share capital issued by Starway Group and the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation on the basis that the Group Reorganisation had been effected on 12 December 2003.

(ii) Statutory reserve

Pursuant to the Articles of Association of certain of Starway Group's subsidiaries, appropriations were made from the income statements to reserves, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on a certain percentage of the companies' net income determined in accordance with the PRC's accounting rules and regulations.

Appropriations to the statutory surplus reserve should be at least 10% of net income determined in accordance with the PRC's accounting rules and regulations until the reserve equals to 50% of the subsidiaries' registered capital. Appropriations to the statutory public welfare fund should be at 5% to 10% of net income determined in accordance with the PRC's accounting rules and regulations. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation.

23. Major non-cash transactions

Starway Group entered into finance leases in respect of fixed assets with a total capital value at the inception of the lease of RMB294,598 for the year ended 31 December 2003.

K. W. Poon & Co.
Certified Public Accountants
Hong Kong

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Graham H.Y. Chan & Co., Certified Public Accountants, Hong Kong.

陳浩賢會計師事務所
GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

13 August 2004

The Directors
Medtech Group Company Limited
Unit 1801-1802
18/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

Re: Medtech Group Company Limited and its subsidiaries together with Starway Management Limited and its subsidiaries (collectively referred to as "the Enlarged Group")

We set out below our report on the unaudited pro forma financial information (the "Pro Forma Financial Information"), comprising the pro forma consolidated statement of assets and liabilities, pro forma consolidated income statement, pro forma consolidated cash flow statement and pro forma statement of adjusted consolidated net tangible assets of Medtech Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 71 to 76 of the Circular dated 13 August 2004 issued by the Company in connection with the acquisition of 35% interest in Starway Management Limited and its subsidiaries ("Starway"), which has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the acquisition of the 35% interest in Starway might have affected the financial information of the Group.

Responsibility

It is the responsibility solely of the Directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practice Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of the Company.

Our work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information is for illustrative purpose only, based on the directors' judgements and assumptions, and because of its nature, it may not be indicative of:

– the financial position or results of the Enlarged Group had the transaction actually occurred as at the date indicated therein; or

– the financial position or results of the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

a. the Pro Forma Financial Information has been properly compiled by the directors on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Graham H.Y. Chan & Co.
Certified Public Accountants
Hong Kong

PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared as if the proposed acquisition of a 35% interest in Starway had been completed and based on the audited consolidated balance sheet of the Group as at 31 December 2003 and the audited consolidated balance sheet of Starway as at 31 March 2004, after appropriate adjustments made as follows.

The pro forma consolidated statement of assets and liabilities of the Enlarged Group should be read in conjunction with the accountants' report of Starway as set out in Appendix II, the financial information of the Group as set out in Appendix I and other financial information included elsewhere in this circular.

	Medtech Group	**Adjustment**		**Pro forma**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Non-current assets				
Fixed assets	23,045			23,045
Investments in associated companies	–	50,417	*1*	50,417
Deferred tax assets	810			810
	23,855	50,417		74,272
Current assets				
Inventories	12,337			12,337
Trade receivables	12,593			12,593
Prepayments, deposits and other receivables	3,581			3,581
Other investments	7,909			7,909
Cash and bank balances	3,063	(1,000)	2	2,063
	39,483	(1,000)		38,483

	Medtech Group	Adjustment		Pro forma
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Current liabilities				
Trade payables	15,023			15,023
Other payable and accruals	20,209	1,000	*3*	21,209
Amounts due to directors	15			15
Amount due to a substantial shareholder	33			33
Current portion of obligations under finance leases	207			207
Tax payable	1,316			1,316
Bank loans – secured	12,055			12,055
	48,858	1,000		49,858
Net current liabilities	(9,375)	(2,000)		(11,375)
Total assets less current liabilities	14,480	48,417		62,897
Non-current liabilities				
Bank loans – secured	–			–
Deferred tax liabilities	757			757
	757			757
	13,723	48,417		62,140

Notes:

1. This represents the Group's 35% share of net asset of Starway as at 31 March 2004.

2. Pursuant to a subscription agreement dated 24 December 2003, the Company had issued 5,000,000,000 shares of HK$0.01 each to Perfect View Development Limited on 13 April 2004. Details of the subscription were disclosed in the circular of the Company dated 12 March 2004. The net proceeds from this subscription were approximately HK$49 million. This adjustment represents the net movement in cash and bank balances between the consideration of HK$50 million to be paid by the Group for the acquisition of 35% interest in Starway and the net proceeds of HK$49 million from the subscription.

3. It represents the estimated expenses payable in connection with the Acquisition.

PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following pro forma consolidated income statement has been prepared based on the published audited financial statements of the Group for the year ended 31 December 2003. As the consideration for the Acquisition was determined with reference to the audited consolidated net asset value of the 35% interest in Starway as at 31 March 2004, no adjustments have been made to the income statement of the Group to give effect of the share of the post acquisition results of Starway as if it had occurred at the commencement of the year ended 31 December 2003.

	Medtech Group	**Adjustment**		**Pro forma**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Turnover	90,022			90,022
Cost of sales	(73,670)			(73,670)
Gross profit	16,352			16,352
Other revenues	250			250
Distribution costs	(1,952)			(1,952)
Administrative expenses	(17,335)	(1,000)	*2*	(18,335)
Other operating gains	381			381
Other gains	3,482			3,482
Profit from operating activities	1,178			178
Finance costs	(1,038)			(1,038)
Share of result of an associate	–			–
Negative goodwill written off	–	417	*1*	417
Profit/(loss) before taxation	140	(583)		(443)
Taxation	(284)			(284)
Loss attributable to shareholders	(144)			(727)
Dividends	–			–

Notes:

1. Negative goodwill arising from the acquisition of 35% interest in Starway written off.

2. It represents the estimated expenses in connection with the Acquisition.

PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following table is a pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2003 which has been prepared for the purpose of illustrative as if the Completion had taken place on 1 January 2003.

The pro forma consolidated cash flow statement is based on the consolidated cash flow statement of the Group for the year ended 31 December 2003.

The pro forma consolidated cash flow statement is prepared to provide the pro forma financial information on the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

	Medtech Group	**Adjustment**		**Pro forma**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Profit/(loss) before taxation	140	(583)		(443)
Adjustments for:				
Reversal of provision for obsolete and slow-moving inventories	(7,930)			(7,930)
Revaluation surplus in respect of leasehold land and buildings	(2,148)			(2,148)
Unrealised gain on other investments	(3)			(3)
Waiver of accrued salaries due to directors	(105)			(105)
Waiver of accrued salaries due to ex-directors	(206)			(206)
Waiver of other payables	(1,020)			(1,020)
Depreciation of fixed assets	1,646			1,646
Loss on disposal of fixed assets	81			81
Negative goodwill written off	–	(417)	*1*	(417)
Operating loss before working capital changes	(9,545)			(10,545)
Decrease in inventories	6,085			6,085
Decrease in trade receivables, prepayments, deposits and other receivables	4,604			4,604
Increase in trade payables, other payables and accruals, including amounts due to directors and a substantial shareholder	1,604	1,000	2	2,604
Cash from operations	2,748			2,748
Hong Kong profits tax paid	(986)			(986)
Net cash from operating activities	1,762	–		1,762

	Medtech Group	Adjustment		Pro forma
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Net cash from operating activities	1,762			1,762
Investing activities				
Purchase of fixed assets	(701)			(701)
Purchase of other investments	(7,906)			(7,906)
Purchase of investment in an associate	–	(50,000)	3	(50,000)
Net cash used in investing activities	(8,607)			(58,607)
Financing activities				
Issue of shares	12,078	49,000	4	61,078
Share issuing expenses	(154)			(154)
Other loans raised	2,050			2,050
Repayment of other loans	(4,550)			(4,550)
Payment of capital element of finance leases	(241)			(241)
Net cash from financing activities	9,183			58,183
Net increase in cash and cash equivalents	2,338			1,338
Cash and cash equivalents at 1 January	725			725
Effect of foreign exchange rates change	–			–
Cash and cash equivalents at 31 December	3,063	(1,000)		2,063
Analysis of balances of cash and cash equivalents				
Cash and bank balances	3,063	(1,000)	5	2,063

Notes:

1. Negative goodwill arising from the acquisition of 35% interest in Starway written off.

2. It represents the estimated expenses payable in connection with the Acquisition.

3. This represents cash consideration paid for the Acquisition.

4. This represents net proceeds from issue 5,000,000,000 new shares pursuant to the subscription agreement dated 24 December 2003. Details of the subscription were disclosed in the circular of the Company dated 12 March 2004.

5. This represents the net movement in cash and bank balances between the consideration of HK$50 million to be paid by the Group for the acquisition of 35% interest in Starway and the net proceeds of HK$49 million from the subscription.

PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

Set out below is a statement of adjusted consolidated net tangible assets of the Group before the Acquisition based on the audited consolidated net assets of the Group as at 31 December 2003 and an unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group after the Acquisition based on the unaudited pro forma consolidated net assets of the Enlarged Group as set out in this Appendix:

Audited consolidated net assets of the Group as at 31 December 2003	**Exclusion of deferred tax assets**	**Inclusion of net proceeds from issue of new shares** *(note 1)*	**Adjusted consolidated net tangible assets of the Group before the Acquisition**	**Adjusted consolidated net tangible assets per Share before the Acquisition** *(note 2)*
HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK cents*
13,723	(810)	49,000	61,913	0.94

Unaudited pro forma consolidated net assets of the Enlarged Group	**Exclusion of deferred tax assets**	**Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group after the Acquisition**	**Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group after the Acquisition** *(note 2)*
HK$'000	*HK$'000*	*HK$'000*	*HK cents*
62,140	(810)	61,330	0.93

Notes:

1. This represents net proceeds from issue 5,000,000,000 new shares pursuant to the subscription agreement dated 24 December 2003.

2. It is based on 6,615,710,980 Shares in issue after issue of 5,000,000,000 new shares pursuant to the subscription agreement dated 24 December 2003.

INDEBTEDNESS OF THE GROUP

Borrowings

At the close of business on 30 June 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$12,052,000, comprising bank loan of approximately HK$10,280,000, obligations under finance leases of approximately HK$138,000, unsecured other loan of approximately HK$1,600,000 and amount due to a substantial shareholder of approximately HK$34,000. The bank loan was secured by the Group's leasehold land and buildings with net book value at 30 June 2004 of approximately HK$21,535,000. The amount due to a substantial shareholder is unsecured, interest free and no fixed term of repayment. The bank loan, other loan and obligations under finance leases are repayable within one year.

As at 30 June 2004, the Group did not have any other unused banking facilities.

Disclaimers

Apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges, debentures or other loan capital, bank loans and overdrafts, loans, debts securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 June 2004.

The directors have confirmed that there has not been any material change in the indebtedness and the contingent liabilities of the Group since 30 June 2004.

WORKING CAPITAL

The Directors are of the opinion that, upon completion of the Acquisition and based on the present available facilities, internal resources of the Group and the estimated net proceeds from the placing of Convertible Notes and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements, that is at least 12 months from the date of this Circular.

MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest audited financial statements of the Group were made up.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE ENLARGED GROUP

Review of operations, management analysis and discussion

Business review for the year ended 31 December 2001

During the year ended 31 December 2001, the Enlarged Group's income derived from the manufacturing and sale of watches and watch components was approximately HK$75.2 million, which was equivalent to 66 per cent. of the Groups' total turnover, representing a drop of 25 per cent. compared with the turnover of manufacturing and sale of watches and watch components for the same period last year and resulted in a loss of approximately HK$8.7 million representing a decrease of 484 per cent from the profit of HK$2.3 million recorded in last year.

The management ascribed the drop in the turnover to a prolonged period of economic downturn, coupled with weak consumer spending, that resulted in a significant decline in market demand for such consumer goods as watches and consequently, watch prices continued to fall sharply. Against the difficult operating environment, the Enlarged Group had been trying its very best to control production costs though there was a limit to the extent to which fixed production costs could be reduced. As a result, the Enlarged Group's profit margin slipped from 3.5 per cent. in prior year to negative 7.6 per cent. in the year under review. The Middle East was the Enlarged Group's major market for watches.

Owing to the over-supply in the watch market at that time and consequently watch prices continued to fall sharply, the sales of watches were under a very narrow profit margin and the Company decided to diversify to other business with growth potential and acquire the computer and computer related business. The Company did not have any expertise on the computer and computer related business and had to rely on the managerial know-how and expertise of the acquired business. 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 was the distribution of computer components, computer systems and network software.

The Enlarged Group's turnover in the distribution of computer components for the financial year ended 31 December 2001 represented 34 per cent. of the Group's total turnover. Canada and Hong Kong remained as the Group's primary markets for the distribution of computer components, which account for 60 and 40 per cent. respectively of the total turnover on the distribution of computer components. A loss of approximately HK$2.8 million was recorded from the distribution of computer components. The unsatisfactory performance of the distribution of computer components was mainly due to the unforeseen changing business environment for the industry with the increasing number of rivals that resulted in inevitably dropped in commodity prices at a faster pace.

The management took a cautious approach regarding the Enlarged Group's markets. While continuing to control production costs and maintaining the competitiveness of products, the Enlarged Group also seriously reviewed the performance of its core business of the manufacturing and selling of the watches and watch components and the distribution of computer components. In order to prepare for the gradually open domestic market in the PRC after the entry of the World Trade Organisation ("WTO"), the Enlarged Group had been actively looking for investment opportunities in Western China so as to secure stable and good returns to the Shareholders.

Business review for the year ended 31 December 2002

During the year ended 31 December 2002, the Enlarged Group's income derived from the manufacturing and sale of watches and watch components was approximately HK$103.4 million, which was equivalent to 91.6% of the Group's total turnover, representing an increase of 37.5% compared with the turnover of manufacturing and sale of watches and watch components of approximately HK$75.2 million for the last year and resulted in the loss of approximately HK$16 million, representing an increase of 85.3% from the loss of HK$8.7 million recorded in previous financial year. The increase in loss was mainly due to the decline in profit margin and the increase of sales and marketing expenditure.

Other than the local and PRC market, the Middle East remained as a major market of the Enlarged Group, and significant effort and resources was spent on South American market to strengthen the business.

The Enlarged Group's turnover in the distribution of computer components for the year ended 31 December 2002 was approximately HK$9.4 million, representing a 75.1% decrease compared with HK$37.9 million in 2001, resulted in a loss from the distribution of computer components of approximately HK$0.4 million for the year under review. Due to the rapidly changing business environment and increasing number of rivals in the industry, plunging of prices resulted in significant decline in profit margin and the operations of distribution of computer components suffered continuous trading loss since its acquisition of the business of Enet.com Limited and its subsidiaries such that the directors decided to suspend its operation in computer components distribution and that its Canadian operation and Enet.com Limited were eventually disposed in December 2002.

The Enlarged Group continued to cautiously allocate resources on other geographic segment with relatively stable market conditions besides the Middle East market. Despite the unfavourable economic environment, the Board believed that the huge market of China could still provide good opportunities and the Enlarged Group continued to explore new business and investment opportunities with good potential so as to diversify the Enlarged Group's business and bring in new sources of income. The Enlarged Group continued to enhance efficiencies by way of streamlining its operation, retrenching of organization structure and costs reduction.

Business review for the year ended 31 December 2003

The global economy had shown sign of recovery during the year under review; Hong Kong's economic also rebound after the SARS, and the PRC economic was forecasted to continue to grow. With an aim to prepare for the revival of the economy and the upcoming new investments opportunities, a capital reorganisation of the Company ("Capital Reorganisation") was proposed and was subsequently implemented and completed on 7 April 2004, which allows flexibility to facilitate any future capital raising when circumstances arose. Immediately following completion of the Capital Reorganisation, the Company has issued 5,000,000,000 new shares of HK$0.01 each to Perfect View Development Limited (the "Subscription").

The Enlarged Group's income derived from the manufacturing and sale of watches and watch components was approximately HK$85.3 million, which was equivalent to 94.7% of the Group's total turnover for the year ended 31 December 2003, representing a decrease of 17.5% compared with the turnover of manufacturing and sale of watches and watch components of approximately HK$103.4 million for the last year. The profit made was approximately HK$3.3 million when compared with the loss of HK$16 million for the year ended 31 December 2002 incurred in last year. The turnaround profit was mainly due to the stringent costs control in streamlining the production processes which lowered the production costs and improved the profit margin, whilst sales and marketing related direct expenditures were also reduced.

Hong Kong, Middle East and South America were still the Group's primary markets, of which turnover of South America continued to grow, as a result of the extensive marketing effort, accounting for 44.6% of the Group's total turnover, and recorded a turnover of HK$40.1 million, representing an increase of 26.9% over the last year.

While the gradual recovery from SARS was yet to be reflected in the current financial year, the Board expected that the signing of the Closer Economic Partnership Agreement ("CEPA") and the China accession to WTO would provide edge to the watch business in the PRC, and the Board believed business in the PRC would become more significant to the development of the Enlarged Group.

After the cessation of the computer business, the manufacturing and selling of watches and watches components became the major business and major revenue source to the Enlarged Group. With the Capital Reorganisation and the Subscription, the Group's financial position was enhanced and the Group was well prepared to further develop its existing business and make investments with earning potentials and complementary to the business of the Group.

Prospects

The watch business will remain the Enlarged Group's main business, and feasibility studies will be conducted to find out the best ways to further improve or develop the watch business. A full review on the Enlarged Group's organization structure and operations will be conducted as well with a view to analysing the strengths and weaknesses of the Enlarged Group to improve the competitiveness for future development.

Following the subscription for new Shares by Perfect View Development Limited in cash of about HK$50 million 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 Enlarged Group. The Directors consider that the business of Starway Group is favourably exposed to the rapid economic development of the PRC since the entry of the WTO and the possible increase in investment by Hong Kong investors under CEPA. The Directors expects that it is highly probable that the demand for energy saving products will increase, with reference to the recently frequent power cut in major cities in the PRC, and that in turn fostering more business opportunities in the industry of manufacturing and sales of advanced technology energy saving products in the PRC. The Company will account for Starway Group on equity accounting basis upon completion of the acquisition of 35 per cent. of the entire issued share capital of Starway Group, which the Directors believe, will strengthen the earning base of and bring growth to the Enlarged Group in the year ahead.

The Directors will continue to capitalize their management expertise and business connection to exploit potential investment opportunities, should such diversification of business help improve the earnings of the Enlarged Group in the long run.

The following is the text of a letter prepared for the purpose of incorporation in this circular, received from AA Property Services Ltd. in connection with the valuation of entire equity interest of Starway:

AA Property Services Ltd.
環亞物業顧問有限公司
Valuation . Agency . Auction . Investment Consultancy . Project & Building Management

13 August 2004

Medtech Group Company Limited
Unit 1801-1802 on 18th Floor
Shui On Centre
Nos.6-8 Harbour Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with the instruction from Medtech Group Company Limited ("the Company") for us to value the property interests located in Shenzhen and Dongguan in the Guangdong Province, The People's Republic of China, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interests as at 30 June 2004.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Our valuation has been made on the assumption that the property interests are sold on the open market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of such property interests.

We have valued the property interest on open market basis assuming sale with the benefit of vacant possession with reference to comparable market transactions. In valuing the property interests, we have assumed that the property interests are capable of being freely disposable and transferable in the open market to both local and overseas purchasers for the residue of the term granted under the land use rights in respect of the property interests. We have further assumed that the owners have proper legal title to the property interests and all fees or payments payable in respect of the land use rights had been fully paid.

We have relied to a very considerable extent on the information provided by the Company and the owner of the property interests and have accepted advice given to us by the Group and the owner of the property interests on such matters as planning approvals or statutory notices, easements, tenure, site and floor areas and all other relevant matters affecting values.

We have not carried on-site measurements to verify the site and floor areas of the property under consideration. We have assumed that the site and floor areas supplied to us by the Group and the owner of the property interests or as shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have been provided with copies of legal documents regarding the title of the property interests. However, we have not caused searches to be made in respect of the title of the property interests and have not scrutinised the original documents to verify ownership or to verify any title amendments which may not appear on the copies handed to us. We have relied on the opinion furnished by the legal adviser, Guangdong Pengdu Law Firm (廣東鵬都律師事務所), on the law of the People's Republic of China as regards the legal title of the property interests. All documents and title documents have been used as reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior and, where possible, the interior of the property included in the attached valuation certificate, in respect of which we have been provided with such information as we have required for the purpose of our valuation. No structural survey has been made. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In preparing the valuation of the property interests, we have regard to the requirements contained in Hong Kong Guidance Notes on the Valuation of Property Assets published by The Royal Institution of Chartered Surveyors (Hong Kong Branch) and the Hong Kong Institute of Surveyors.

The translation of Hong Kong Dollars (HK$) into Renminbi (RMB) is based on the approximate rate of HK$1.00 to RMB1.05 prevailing on 30 June 2004.

Our summary of valuation and valuation certificate are attached.

Yours faithfully,
For and on behalf of
A A PROPERTY SERVICES LIMITED

PATRICK W.C. LAI
MRICS, MHKIS, MCIArb., RPS
Executive Director

Note: Patrick W.C. Lai is a Chartered Valuation Surveyor and has been a qualified valuer with A A Property Services Ltd. since 1991. Mr. Lai has over 15 years of experience in the valuation of property located in Hong Kong and the People's Republic of China.

SUMMARY OF VALUATION

	Property	Capital value in existing state as at 30 June 2004
1.	An industrial development in Xishouao Shan, Quanjingtou Administrative Zone, Fengang, Dongguan, Guangdong Province, The People's Republic of China	HK$29,500,000 (RMB31,000,000)
2.	Flat F on 31st Floor, Block B, Tonge Notable Garden, or known as Block 5, Xiangmicun Three, Futian District, Shenzhen, Guangdong Province, The People's Republic of China	HK$857,000 (RMB900,000)
3.	Flat C on 29th Floor, North Block Jing Yuan Building, Hou Hoi Avenue junction Gongye Seventh Avenue, Nanshan District, Bao'An Shenzhen, Guangdong Province, The People's Republic of China	HK$952,000 (RMB1,000,000)

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30 June 2004
1.	An industrial Development at Xishouao Shan, Quanjingtou Administrative Zone, Fengang, Dongguan, Guangdong Province, The People's Republic of China	The property comprises a piece of land containing a site area of 12,293 square meters (or about 132,321.8 square feet). The property was developed in two phases. Phase 1 contained an 8-storeyed factory building with a total gross floor area of 21,506.89 square metres (or about 231,500.16 square feet) and two 6-storeyed dormitory buildings with a total gross floor area of 12,978.78 square metres (or about 139,703.58 square feet). The buildings were completed in various stages between 1993 and 1994. Phase 2 contained four blocks of 6-storeyed dormitory buildings with a total gross floor area of about 9,000 square metres (or about 96,876 square feet) and a 6-storeyed factory building with a total gross floor area of about 7,776 square metres (or about 83,700 square feet). The buildings were completed in about 1998. There are other single storeyed temporary buildings for ancillary operation purposes. The land use right was granted for a term of 50 years from February 1996 to February 2046.	The factory buildings are occupied by the Company for manufacturing and storage purposes. The dormitory buildings are occupied by the Company as staff quarters and for amenity facilities.	HK$29,500,000 (RMB31,000,000)

Notes:

1. Pursuant to the Certificate for State-owned Land Use Right issued by Dongguan Municipal Land Administrative Bureau on 3 May 1996 the land use right of the property comprising a site area of 12,293 square metres (or about 132,321.8 square feet) had been granted to Stime Watch Manufacturing Limited, a wholly-owned subsidiary of the Group, for a term of 50 years from February 1996 to February 2046. The property shall be for industrial uses.

2. Pursuant to the Building Ownership Certificate No.0237962 issued by The People's Government of Dongguan Municipality on 12 December 1996, the legal title of the 8-storeyed factory building containing a total gross floor area of 21,506.89 square metres (or about 231,500.16 square feet) which was built under Phase 1 had been issued to Stime Watch Manufacturing Limited for a period from February 1996 to February 2046.

3. Pursuant to the Building Ownership Certificate No.0237963 issued by The People's Government of Dongguan Municipality on 12 December 1996, the legal title of the two 6-storeyed dormitory buildings containing a total gross floor area of 12,978.78 square metres (or about 139,703.58 square feet) which was built under Phase 1 had been granted to Stime Watch Manufacturing Limited for a period from February 1996 to February 2046.

4. Pursuant to the Licence for the commencement of building works No.971198 issued by the Dongguan Planning and Construction Bureau on 1 August 1997, construction works of two blocks of six-storeyed dormitory buildings containing a total gross floor area of 4,500 square metres were permitted to commence on 9 July 1997 and have been completed. The construction of the two dormitory buildings had been completed under Phase 2. The two dormitory buildings are at present occupied by the Group for dormitory purposes. The company is at present applying for the Building Ownership Certificates for the two dormitory buildings. Based on the opinion of the legal adviser on the law of the People's Republic of China, the issue of such certificate is subject to the payment of a nominal application fee and the existing occupation of the two dormitory buildings is permitted under the relevant government regulations.

5. Pursuant to the Licence for the commencement of building works No.971616 issued by the Dongguan Planning and Construction Bureau on 19 September 1997, construction works of a six-storeyed factory building containing a total gross floor area of 7,776 square metres were permitted to commence on 18 September 1997 and have been completed. The construction of the factory building had been completed under Phase 2. The factory building is at present occupied by the Group for storage purposes. The company is at present applying for the Building Ownership Certificate for the factory building. Based on the opinion of the legal adviser on the law of the People's Republic of China, the issue of such certificate is subject to the payment of a nominal application fee and the existing occupation of the factory building is permitted under the relevant government regulations.

6. Pursuant to the Licence for the commencement of building works No.971870 issued by the Dongguan Planning and Construction Bureau on 28 October 1997, construction works of two blocks of six-storeyed dormitory buildings containing a total gross floor area of 4,500 square metres were permitted to commence on 23 October 1997 and haven been completed. The construction of the two dormitory buildings had been completed under Phase 2. The two dormitory buildings are at present occupied by the Group for dormitory purposes. The company is at present applying for the Building Ownership Certificates for the two dormitory buildings. Based on the opinion of the legal adviser on the law of the People's Republic of China, the issue of such certificate is subject to the payment of a nominal application fee and the existing occupation of the two dormitory buildings is permitted under the relevant government regulations.

7. Parts of the factory building are occupied by Dongguan Queshi Watch Co. Ltd., a wholly-owned subsidiary of Stime Watch Manufacturing Limited. Pursuant to the Business Licence No.002080 dated 4 June 1999 issued by The State Industrial and Commercial Administrative Bureau, Dongguan Queshi Watch Co. Ltd., an indirect wholly-owned subsidiary of the Group, was incorporated with a registered capital of HK$16,500,000. The Licence is valid for a period from 23 May 1994 to 22 May 2006 and the scope of business covers manufacturing of watch and its accessories.

8. Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in The People's Republic of China issued by The People's Government of Guangdong Province on 11 March 1998, Dongguan Queshi Watch Co., Ltd., a wholly-owned subsidiary of the Group, was permitted to be established by Stime Watch Manufacturing Co., Ltd. with the registered capital of HK$16,500,000.

9. In accordance with the opinion of the legal adviser on the law of the People's Republic of China, the right to transfer the titles to the factory building and the four dormitory buildings built under Phase 2 is subject to the issue of the Building Ownership Certificates by the relevant government authority. We have been advised by the Group that the construction of the buildings under Phase 2 had been completed and the construction costs had been fully paid. Based on the opinion of the legal adviser on the law of the People's Republic of China, the grant of the Building Ownership Certificates will not have any legal impediment and the fees payable will not be substantial in nature. In our opinion, in the assessment of the value of the property interest, such buildings could be valued as if they could be freely disposable and transferable in the open market.

10. In accordance with the opinion of the legal adviser on the law of the People's Republic of China:–

    a. Dongguan Queshi Watch Co., Ltd. is a company authorised to be established and the business licence is valid for the period as stated.

    b. The land use right and the building ownership certificates in the possession of Stime Watch Manufacturing Limited are valid.

    c. The term of the Land Use Right in respect of the parcel of land is valid.

    d. The owner is in possession of a proper title to the property interest including the land and the buildings thereon and is entitled to transfer the property interest for the residue of the term of the land use right at no extra premium or other payment of an onerous nature.

    e. The property can be freely disposed of in the open market to any third parties.

    f. The factory building and the four blocks of dormitory buildings under Phase 2 were constructed and completed in accordance with the relevant building rules and regulations. The existing occupation of the buildings is permitted by the relevant government authority. Upon application to the relevant government authority, the building ownership certificates for the buildings will be issued and the fees payable will not be substantial in nature. The Group cannot transfer the title to the buildings unless and until the building ownership certificates for the buildings have been issued.

11. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:–

Document	**Status**
Land Use Right	Yes
Certificates for Building Ownership	Yes
Business Licence	Yes
Licence for commencement of building works	Yes

	Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30 June 2004
2.	Flat F on 31st Floor, Block B, Tonge Notable Garden, or known as Block 5, Xiangmicun Three, Futian District, Shenzhen, Guangdong Province, The People's Republic of China	The property comprises an apartment unit on the 31st floor of an apartment block within a residential estate. The apartment building was completed in 1996. The property contained a gross floor area of 139 square metres. The land use right of the property was granted for a term of 50 years commencing on 7 April 1999 and expiring on 6 April 2049.	The property is at present occupied by a director of the owner company for his own purposes. The property is occupied for office purposes.	HK$857,000 (RMB900,000)

Notes:

1. Pursuant to the Building Ownership Certificate issued by The Shenzhen Municipal Planning and Land Bureau and registered on 14 October 1999, the legal title of the property was vested in "深圳市寶博實業發展有限公司". The property was permitted for commercial and residential uses. The land use right was granted for a term of 50 years commencing on 7 April 1999 and expiring on 6 April 2049.

2. Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in The People's Republic of China 外經貿粵深外資証字[2003] 1376號issued on 22 December 2003 by The People's Government of Shenzhen Municipality, "深圳德勤實業發展有限公司" was permitted to be established by Starway Management Ltd. with the registered capital of Rmb10,000,000. The permitted duration of operation was 10 years. The scope of business permitted was the manufacturing and sales of electricity savings devices.

3. Pursuant to the Business Licence Certificate 企獨粵深總字第312131號 issued by the Shenzhen Municipal Commercial and Administrative Bureau on 25 December 2003, "深圳德勤實業發展有限公司" was established on 20 November 1996. The registered capital of the company was Rmb10,000,000. The company was a foreign investment enterprise. The scope of business permitted was manufacturing and sales of electricity savings devices. The permitted operation period commenced on 20 November 1996 and expired on 25 December 2013.

4. Pursuant to the Notice of Change issued by the Shenzhen Municipal Commercial and Administrative Bureau on 21 April 2003, "深圳市德勤實業發展有限公司" was formerly known as "深圳市寶博實業發展有限公司".

5. In accordance with the opinion of the legal adviser on the law of the People's Republic of China:–

   a. "深圳市德勤實業發展有限公司" is a company authorised to be established and the business licence is valid for the period as stated.

   b. The building ownership certificate in the possession of "深圳市寶博實業發展有限公司" is valid.

   c. The term of the Land Use Right in respect of the property is valid.

d. The owner is in possession of a proper title to the property interest and has full and uninterrupted right to transfer the property interest for the residue of the term of the land use right at no extra premium nor other payment of an onerous nature.

e. The property can be freely disposed of in the open market to any third parties.

6. The status of the title and licence in accordance with the information provided by the Company and the owner of the property and the aforesaid legal opinion are as follows:–

Document	**Status**
Certificate for Building Ownership	Yes
Business Licence	Yes

	Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30 June 2004
3.	Flat C on 29th Floor, V North Block, Jing Yuan Building, Hou Hoi Avenue junction Gongye Seventh Avenue, Nanshan District, Bao'An Shenzhen, Guangdong Province, The People's Republic of China	The property comprises an apartment unit on the 29th floor of an apartment block within a residential estate. The apartment building was completed in 1997. The property contained a gross floor area of 179 square metres. The land use right of the property was granted for a term of 70 years commencing on 22 July 1992 and expiring on 22 July 2062.	The property is at present occupied by a director of the owner company as his residence.	HK$952,000 (RMB1,000,000)

Notes:

1. Pursuant to the Building Ownership Certificate issued by The Shenzhen Municipal Planning and Land Bureau and registered on 29 January 1998, the legal title of the property was vested in "深圳市寶博實業發展有限公司". The property was permitted for commercial and residential uses. The land use right was granted for a term of 70 years commencing on 22 July 1992 and expiring on 22 July 2062.

2. Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in The People's Republic of China 外經貿粵深外資証字[2003] 1376號issued on 22 December 2003 by The People's Government of Shenzhen Municipality, "深圳德勤實業發展有限公司" was permitted to be established by Starway Management Ltd. with the registered capital of Rmb10,000,000. The permitted duration of operation was 10 years. The scope of business permitted was the manufacturing and sales of electricity savings devices.

3. Pursuant to the Business Licence Certificate 企獨粵深總字第312131號 issued by the Shenzhen Municipal Commercial and Administrative Bureau on 25 December 2003, "深圳德勤實業發展有限公司" was established on 20 November 1996. The registered capital of the company was Rmb10,000,000. The company was a foreign investment enterprise. The scope of business permitted was manufacturing and sales of electricity savings devices. The permitted operation period commenced on 20 November 1996 and expired on 25 December 2013.

4. Pursuant to the Notice of Change issued by the Shenzhen Municipal Commercial and Administrative Bureau on 21 April 2003, "深圳市德勤實業發展有限公司" was formerly known as "深圳市寶博實業發展有限公司".

5. In accordance with the opinion of the legal adviser on the law of the People's Republic of China:–

   a. "深圳市德勤實業發展有限公司" is a company authorised to be established and the business licence is valid for the period as stated.

   b. The building ownership certificate in the possession of "深圳市寶博實業發展有限公司" is valid.

   c. The term of the Land Use Right in respect of the property is valid.

d. The owner is in possession of a proper title to the property interest and has full and uninterrupted right to transfer the property interest for the residue of the term of the land use right at no extra premium nor other payment of an onerous nature.

e. The property can be freely disposed of in the open market to any third parties.

6. The status of the title and licence in accordance with the information provided by the Company and the owner of the property and the aforesaid legal opinion are as follows:–

Document	**Status**
Certificate for Building Ownership	Yes
Business Licence	Yes

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
10,000,000,000	shares of HK$0.01 each	100,000,000
Issued and fully paid or credited as fully paid:		
6,615,710,980	shares of HK$0.01 each	66,157,110

Based on the issued share capital as at the Latest Practicable Date and upon completion of the placing of the Convertible Notes and full exercise of the conversion rights attached thereto (based on a conversion price of HK$0.02 per Share) the issued share capital will be:

6,615,710,980	Shares as at the Latest Practicable Date	66,157,110
1,000,000,000	Shares to be issued on full conversion of the conversion rights attaching on the Convertible Notes	10,000,000
7,615,710,980		76,157,110

Upon full conversion of the Convertible Notes, all of the above Shares shall rank pari passu in all aspects, including all rights as to dividend, voting and interests in capital, among themselves and with all other Shares in issue on the date of issue.

No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchange.

Save as disclosed in this circular, as at the Latest Practicable Date, there are no outstanding convertible debts, options or warrants of the Company.

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors have interests or 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 are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this circular pursuant to the requirements of the Model Code for Securities Transactions by directors of Listed Companies:

Name of Directors	Capacity	Nature of Interests	Number of Shares	Approximate percentage of existing issued share capital of the Company
Cheung Yu Shum, Jenkin *(Note a)*	Interest of a controlled corporation	Corporate	4,456,300,000	67.36
Wong Kui Tak *(Note b)*	Beneficial owner	Personal	56,666,666	0.86

Notes:

(a) Mr. Cheung Yu Shum, Jenkin, the chairman of the Board and executive Director, is the beneficial owner of Perfect View Development Limited.

(b) Mr. Wong is an executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive nor their respective associates had any interests or 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 are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be disclosed in this circular pursuant to the requirements of the Model Code for Securities Transactions by directors of Listed Companies.

(b) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of SFO, and so far as is known to any Directors or chief executive of the Company and their respective associates, the following persons had, or was deemed or taken to have, an interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

Name of Shareholders	Number of Shares	Approximate percentage of existing issued share capital of the Company
Perfect View Development Limited *(Note 1)*	4,456,300,000	67.36
Cheung Yu Shum, Jenkin	4,456,300,000	67.36
Chu Yuet Wah *(Note 2)*	1,058,343,340	16.00
Kingston Securities Limited *(Note 3)*	1,000,010,007	15.12
Ma Siu Fong *(Note 3)*	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 Yu Shum, Jenkin, the chairman of the Board 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 and so far as is known to the Directors, there is no person known to the Directors who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group, or under any option.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and his/her respective associates have/are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

5. LITIGATION

On 22 May 2002, Synnex Canada Limited ("Synnex"), a supplier of 1024120 Ontario Limited ("Ontario") which is a disposed subsidiary of the Company, has issued a writ in Canada 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, were 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 the Latest Practicable Date, 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 Directors consider that since the litigation relates to the said guarantee which was forged and an incomplete document, no provision has to be made in its consolidated Group accounts.

Save as above, none of the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no other litigation or claim of material importance is known to the Directors to be pending or threatened against either the Company or any of its subsidiaries.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with the Company or its subsidiaries or associated companies which is not determinable within one year without payment of any compensation (other than statutory compensation) have more than 12 months. In addition, no director's service contract had been entered into or amended within 6 months prior to the Latest Practicable Date.

7. CONSENT

As at the Latest Practicable Date, each of AA Property Services Ltd., Graham H.Y. Chan & Co. and K.W. Poon & Co. has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter(s) of advice or report and/or valuation certificate and/or opinion and/or references to its names in the form and context in which they appear.

8. QUALIFICATION OF EXPERTS

The following is the qualification of the professional advisers who have given their opinion or advice or report which is contained in this circular:

Name	Qualification
K.W. Poon & Co.	Certified Public Accountants
Graham H.Y. Chan & Co.	Certified Public Accountants
AA Property Services Ltd.	Chartered Valuation Surveyor

9. DISCLOSURE OF INTERESTS OF ADVISERS

(1) As at the Latest Practicable Date, each of AA Property Services Ltd., Graham H.Y. Chan & Co. and K.W. Poon & Co. does not have any shareholding in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

(2) Each of AA Property Services Ltd., Graham H.Y. Chan & Co. and K.W. Poon & Co. does not have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2003, the date to which the latest published audited consolidated accounts of the Group were made up to and including the Latest Practicable Date.

10. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this circular and are, or may be, material:

(a) the Sale and Purchase Agreement;

(b) the Supplemental Agreement;

(c) the Placing Agreement;

(d) the Supplemental Placing Agreement;

(e) the subscription agreement dated 24 December 2003 entered into between the Company and the Subscriber in relation to the subscription of the 5,000,000,000 Shares by Perfect View Development Limited;

(f) The placing agreement dated 9 June 2003 entered into between the Company and the placing agent, Kingston, in respect of the placing of an aggregate of 807,854,000 new shares to independent investors at a placing price of HK$0.01 per placing share;

(g) the placing agreement dated 25 March 2003 entered into between the Company and the placing agent, Kingston, in respect of the placing of an aggregate of 400,000,000 new shares to independent investors at a placing price of HK$0.01 per placing share; and

(h) the placing agreement dated 2 September 2002 entered into between the Company and the placing agent, Metro Capital Securities Limited, in respect of the placing of an aggregate of 270,000,000 placing shares to independent investors at a placing price of HK$0.01 per placing share.

Save for the aforesaid material contracts, no material contract has been entered into by the Company and its subsidiaries (not being contracts entered into in the ordinary course of business) within two years immediately from the Latest Practicable Date which are or may be material.

11. MISCELLANEOUS

(1) Save for the Sale and Purchase Agreement and the Supplemental Agreement (as mentioned under the section headed "The Sale and Purchase Agreement") and the Placing Agreement and the Supplemental Placing Agreement (as mentioned under the section headed "Placing Agreement"), there is no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any shareholders as at the Latest Practicable Date.

(2) Save as disclosed in the section headed "Disclosure of Interests" in this appendix, there is no contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

(3) As at the Latest Practicable Date, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31 December 2003, the date to which the latest published audited accounts of the Group were made up.

(4) As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up.

(5) The company secretary of the Company is Mr. Cheung Man Yau, Timothy, who is a member of The Hong Kong Society of Accountants.

(6) The qualified accountant of the Group is Mr. Cheung Yu Shum, Jenkin, who is a member of The American Institute of Certified Public Accountants.

(7) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business in Hong Kong of the Company is at Unit 1801-1802, 18th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

(8) The registered address of the Placing agent and Kingston Corporate Finance Limited (the financial adviser to the Company), is at Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Road, Central, Hong Kong.

(9) The share registrars and transfer office of the Company in Hong Kong is Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(10) The English text of this circular and of the proxy form shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays and public holidays) at the principal office of the Company in Hong Kong at Unit 1801-1802, 18th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the memorandum and Bye-laws;

(b) the annual reports of the Company for the two years ended 31 December 2003 and 2002;

(c) the circular dated 12 March 2004 regarding (i) proposed capital reorganization involving, inter alia, share consolidation and capital reduction; (ii) subscription for new shares by the subscriber; (iii) application for the granting of the whitewash waiver; and (iv) general mandates to issue and repurchase new shares;

(d) the circular dated 13 May 2004 regarding (i) proposals for re-election of retiring directors; (ii) general mandates to issue and to repurchase new shares; (iii) termination of the existing share option scheme and the adoption of a new share option scheme; (iv) amendments to the Bye-laws; and (v) notice of annual general meeting;

(e) the letters of consent from each of AA Property Services Ltd., Graham H.Y. Chan & Co. and K.W. Poon & Co. referred to in paragraph 7 of this Appendix;

(f) the material contracts referred to in paragraph 10 of this Appendix, if applicable;

(g) the valuation report prepared by AA Property Services Ltd., the text of which is set out in Appendix IV of this circular;

(h) the accountant's report on Starway prepared by K.W. Poon & Co., the text of which is set out in Appendix II of this circular; and

(i) the report on the pro forma financial information of the Enlarged Group prepared by Graham H.Y. Chan & Co., the text of which is set out in Appendix III of this circular.

邁特科技集團有限公司*
MEDTECH GROUP COMPANY LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 1031)

NOTICE IS HEREBY GIVEN that a special general meeting of Medtech Group Company Limited (the "**Company**") will be held at Unit 9-10, 10th Floor, Vanta Industrial Centre, 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong on Monday, 30 August 2004 at 10:00 a.m. (or any adjournment thereof) for the purposes of considering and, if thought fit, passing with or without amendment or modification, of the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the execution of the conditional sale and purchase agreement dated 9 June 2004 (the "**S&P Agreement**") (a copy of which is produced before the meeting marked "A" and initialed by the chairman of the meeting for the purpose of identification) entered into between Win Matching Limited (the "**Purchaser**") and Eurofaith Holdings Inc. (the "**Vendor**") for the acquisition of 35 per cent. of the entire issued share capital in Starway Management Limited ("**Starway**") by the Purchaser and the transactions contemplated under the S&P Agreement and the supplemental agreement dated 31 July 2004 (the "**Supplemental Agreement**") (a copy of which is produced before the meeting marked "B" and initialed by the chairman of the meeting for the purpose of identification) entered into between the Purchaser and the Vendor pursuant to which the parties agreed to extend the date of completion of the S&P Agreement be and are hereby confirmed, ratified and approved and that any one director of the Company ("**Director**") be and is hereby authorised to sign, seal, execute, perfect and deliver such other documents or supplemental agreements and to do all such acts, matters and things as he may in his absolute discretion consider necessary, desirable or expedient for the purposes of implementing, completing and giving effect to the S&P Agreement, the Supplemental Agreement and the transactions contemplated thereunder with such modifications, amendments or changes as such Director may consider necessary, desirable or expedient."

2. "**THAT**:

   (a) the issue of the convertible notes (a copy of which is produced before the meeting marked "C" and initialed by the chairman of the meeting for the purpose of identification) in an aggregate principal amount of HK$20,000,000 (the "**Convertible Notes**") at the conversion price of HK$0.02 per share (subject to adjustment) by the Company to not fewer than six independent professional, corporate or individual placees pursuant to the terms and conditions thereof, and subject to the Listing Committee of The Stock Exchange of Hong Kong Limited having granted (either unconditionally or subject to conditions to which neither the

* *For identification purposes only*

Company nor the placees shall unreasonably object) approval for the listing of and permission to deal in the new shares in the capital of the Company upon conversion of the Convertible Notes ("**Conversion Shares**"), the allotment and issue of the Conversion Shares (whether in whole or in part thereof), be and are hereby approved;

(b) the Directors be and are hereby authorised to allot and issue the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Notes (whether in whole or in part thereof) pursuant to the terms and condition of the Convertible Notes ; and

(c) the Directors be and are hereby authorised to sign, seal, execute, perfect and deliver such other documents or Supplemental Agreements and to do all such acts, matters and things as he may in his absolute discretion consider necessary, desirable or expedient in connection with the Convertible Notes and any transactions or matters contemplated in sub-paragraphs (a) and (b) above."

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

Hong Kong, 13 August 2004

As at the date hereof, the board of Directors comprises of four executive Directors, namely Mr. Cheung Yu Shum, Jenkin, Mr. Chu Yuk Kuen, Mr. Wong Kui Tak and Mr. Ng Tak Chak, Nelson and two independent non-executive Directors, namely Mr. Tam Cheuk Ho and Mr. Shum Ka Hei.

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Unit 1801-1802
18th Floor, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong at Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.

3. Completion and deposit of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting convened or any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

4. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the name stands first on the register of members of the Company in respect of the joint holding.