Annual Report 2001

Fast Systems Technology (Holdings) Limited

東光集團有限公司*

(incorporated in the Cayman Islands with limited liability)

*For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (The "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Fast Systems Technology (Holdings) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

Registered office	P O Box 309 Ugland House George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business	Office Unit No. 6, 9th Floor Grand City Plaza Nos. 1-17 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong
Compliance officer	Mr. Liao Ko Ping
Company secretary	Mr. Wong Chi Wing *CGA, ACMA*
Qualified accountant	Mr. Wong Chi Wing *CGA, ACMA*
Authorised representatives	Mr. Liao Ko Ping Mr. Wong Chi Wing *CGA, ACMA*
Audit Committee	Mr. Tam Yeung Kai, Vicko *Chairman* Mr. Cheng, Isaac
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Abacus Share Registrars Limited 5th Floor, Wing On Centre, Central Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited
Sponsors	TIS Securities (HK) Limited CSC Asia Limited
Joint auditors	PricewaterhouseCoopers *Certified Public Accountants* Chan, Wong, Chung & Co. *Certified Public Accountants*
Stock code	8150

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Fast Systems Technology (Holdings) Limited (the "Company") will be held at Chater Room 4, Basement 1, Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Wednesday, 24th April 2002 at 10:00 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31st December 2001;

2. to re-elect directors and to authorise the directors of the Company (the "Directors") to fix their remuneration;

3. to re-appoint the Company's auditors and to authorise the Directors to fix their remuneration;

and, as special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

Ordinary Resolutions

4. **THAT:**

(a) subject to paragraph (c) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time, shall not exceed the aggregate of:

(i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution), and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

(d) for the purposes of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any other applicable law of Cayman Islands to be held; and

(iii) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to eligible holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).

5. **THAT:**

(a) the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase its shares on the Stock Exchange or any other stock exchange outside Hong Kong on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong ("SFC") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, the GEM Listing Rules, the Articles of Association of the Company and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly;

(c) for the purposes of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any other applicable law of Cayman Islands to be held; and

(iii) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

6. **THAT:**

   the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 4 above in respect of the share capital of the Company in issue referred to in sub-paragraph (ii) of paragraph (c) of such resolution.

On Behalf of the Board
Fast Systems Technology (Holdings) Limited
Liao Lien Shen
Chairman

Hong Kong, 26th March 2002

Head office and principal place of business in Hong Kong:
Office Unit No. 6, 9th Floor
Grand City Plaza
Nos. 1-17 Sai Lau Kok Road
Tsuen Wan, New Territories, Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of Articles of Association of the Company, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's Hong Kong branch registrar, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. In relation to the proposed resolutions nos. 4 and 6 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the GEM Listing Rules. The Directors have no immediate plan to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders of the Company.

4. In relation to the proposed resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders of the Company. An explanatory statement containing the information necessary to enable the shareholders of the Company to make an informed decision to vote on the proposed resolution as required by the GEM Listing Rules will be set out in a separate document to be despatched to the shareholders of the Company with the annual report for the year ended 31st December 2001.

CHAIRMAN'S STATEMENT

Year 2001 was a landmark year for the Group. Despite the global economic downturn, and further compounded by the September 11 terrorist attacks in the United States, the Group still managed to make a profit of approximately HK$1.4 million and was listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th August 2001. The initial public offering was oversubscribed and raised net proceeds of approximately HK$19.4 million.

The worldwide slowdown in the demand for luxurious watches resulted in a drastic reduction in sales of sapphire watch crystals in the fourth quarter of 2001. We responded rapidly to the market conditions by implementing a series of cost control measures which included the negotiation of lower price with our major suppliers, downsizing our Taiwan branch and eventually restructuring it to a commissioned sales and purchasing agent in 2002 to ensure a lean overhead and cost effective operating structure. During the year, we marketed intensively to prestigious Swiss wristwatches manufacturers to increase our revenue generated from our sales to them. This strategy paid off and European sales increased from approximately HK$18.1 million in 2000 to approximately HK$31.4 million in 2001.

One of our major objectives in 2002 is to expand the production of ferrules for the telecommunications industry. As one of the leading precision polishing service providers, the Group is strategically positioned to take full advantage of recovery of the telecommunications industry.

I would like to take this opportunity to thank our board of directors, shareholders, customers, and industry partners for their continued support and our employees for contributing their enery and skills during the past year. We are operating as a company with an unparalleled committed team and I look forward to a productive year in 2002.

Liao Lien Shen
Chairman

Hong Kong, 25th March 2002

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Total turnover of the Group for the year ended 31st December 2001 amounted to HK$45,393,083, representing a 7.6% decrease from that of HK$49,104,906 generated in the year ended 31st December 2000. Turnover in the fourth quarter reduced drastically as customers delayed their purchases after the "September 11" terrorist attack in the United States. During 2001, the Group strategically focused its effort on serving those prestigious Swiss wristwatches manufacturers and successfully increased the sales to customers in Europe to HK$31,452,818, representing a 73.3% increase from that of HK$18,148,707 generated in the year ended 31st December 2000. However, turnover from Hong Kong customers reduced to HK$10,047,304 in the year ended 31st December 2001, representing 56.8% decrease from that of HK$23,255,574 generated in the year ended 31st December 2000. Turnover generated from Taiwan customers also reduced to HK$3,892,961 in the year ended 31st December 2001, representing a 49.4% decrease from that of HK$7,700,625 generated in the year ended 31st December 2000.

Cost of sales and gross profit

Although the turnover of the Group for the year ended 31st December 2001 decreased by HK$3,711,823, cost of sales of the Group during the same period decreased to HK$33,516,609 from that of HK$41,305,581 in the year ended 31st December 2000. Gross profit margin for the Group increased to approximately 26.2% in the year ended 31st December 2001 from 15.9% in the year ended 31st December 2000. The increase in gross profit margin was primarily attributable to the increase in contribution from sales of higher valued added synthetic sapphire watch crystals to European customers.

Other revenue

Other revenue for the year ended 31st December 2001 amounted to HK$169,656, which represented the interest income generated during the year on bank deposits from temporary unused cash proceeds from listing.

Distribution costs, administrative and other operating expenses

The Group continued to expand its sales to customers in Europe. As a result, distribution costs for the year ended 31st December 2001 totalled HK$1,647,964. This represents an increase of HK$430,937 from that recorded in the year ended 31st December 2000.

Total administrative expenses were approximately HK$7,447,985 for the year ended 31st December 2001 and HK$5,257,066 for the year ended 31st December 2000. Administrative salary expenses amounted to HK$3,112,735 in 2001 and HK$2,301,627 in 2000. The increase in administrative salary expenses was a result of recruitment of additional managerial staff. The Group had approximately 392 employees as at 31st December 2001 (2000: 403 employees). In addition, travelling and entertainment expenses amounted to HK$2,011,890 in 2001 and HK$1,170,884 in 2000. Travelling and entertainment expenses increased significantly was due to more trips taken in 2001 by marketing and technical staff in visiting customers for improving customer service. Insurance expenses increased from HK$163,991 in 2000 to HK$337,392 in 2001 as more PRC workers were under insurance coverage.

Other operating expenses/income have been changed from net other operating income of HK$576,738 in 2000 to net other operating expenses of HK$715,173 in 2001. This was mainly due to a decrease in exchange gain from HK$1,340,906 in 2000 to that of HK$347,970 in 2001. Bad debts expenses increased from HK$42,681 in 2000 to HK$103,602 in 2001.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Financial resources and liquidity

The Group has improved its financial position with shareholders funds amounted to HK$62,912,501 as at 31st December 2001 (2000: deficit of HK$6,529,666) with the help of a series of capital injections and proceeds from listing of the Company's shares in 2001. Current assets amounted to HK$31,831,070 as at 31st December 2001 (2000: HK$18,090,215), of which HK$3,091,628 (2000: HK$524,470) were cash and bank balances. HK$10,620,000 (2000: nil) was placed in time deposit accounts to secure certain bank borrowings of HK$13,905,411 as at 31st December 2001 (2000: nil). The remaining bank borrowings of HK$1,869,159 (2000: HK$1,869,159) were secured by a mortgage on the Group's property interests in the PRC with net book value amounted to HK$7,841,182 (2000: 2,802,177).

As at 31st December 2001, the Group total borrowings amounted to approximately HK$15,774,570 (2000: HK$1,869,159), of which approximately HK$1,869,159 was denominated in Renminbi and the remaining balances were denominated in Hong Kong dollars. The bank borrowings were repayable within one year. The Renminbi loan is a fixed rate loan while the remaining Hong Kong dollar denominated loans are floating rate loans.

The Group's gearing ratio, calculated based on bank borrowings and shareholders' equity, as at 31st December 2001 was 25% (2000: N/A due to capital deficiency).

Foreign currency risk

During the year under review, most of the Group's sales are denominated in Swiss Francs while over 62% of the Group's purchases are denominated in Euro/French Francs. There has not been significant changes in exchange rate between Swiss Francs and Euro/French Francs. This kind of natural hedge reduced the Group's exposure to foreign currency risk. Management will monitor the exchange rate between Swiss Francs and Euro closely and enter into hedge contracts if necessary to reduce the Group's foreign currency risk.

Contingent liabilities

As of the date of this announcement, the Group has no material contingent liabilities.

Employees

As at 31st December 2001, the Group had 392 employees. Employees were remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits included free accommodation at the Group's staff quarters in PRC and performance bonus. Total staff cost for 2001 was HK$7,828,375 (2000: HK$7,327,266).

Convertible bonds

During the year ended 31st December 2001, the Company issued four convertible notes for a total principal amount of HK$32,000,000. Details of them are set out in the prospectus of the Company dated 27th July 2001 ("Prospectus").

All convertible notes had been subsequently converted into the shares of the Company at the Offer Price (as defined in the Prospectus).

Major acquisitions

During the year, The Group acquired additions to fixed assets and incurred additions to assets under constriction totalling HK$42,429,915, for the expansion of the watch crystals production facilities and the set up of the optoelectronic production facilities.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

BUSINESS REVIEW

During the year under review, the Group shifted its focus from Hong Kong and Taiwan markets to target prestigious Swiss wristwatches manufacturers because the expected profit margin from those Swiss customers' orders were higher than that from the Hong Kong and Taiwan customers. The financial results in year 2001 did show that the overall gross profit margin was 26.2% which was much higher than that of 15.9 % achieved in year 2000.

In addition to the aggressive marketing strategy in Switzerland to increase sales of synthetic sapphire watch crystals, the Group installed the first phase of machinery and equipment in the PRC for the production of ferrules. Test production of ferrule blank commenced in early December 2001.

PROSPECTS

The Board expects that the demand for synthetic sapphire watch crystals will decrease in the first quarter of 2002 due to the sluggish consumer spending as a result of economic uncertainty caused by the terrorist attacks and the current warfare between the US and its allies against Afghanistan. However, orders for synthetic sapphire watch crystals is expected to rebound in the second quarter of 2002, in pace with economic recovery in the US.

Despite the economic downturn in US after the "September 11" terrorist attacks, the Board is still optimistic about the Group's future prospect as the fibre optics market will offer further growth potential to the Group.

The Board expects that the mass production of ferrules will begin in April 2002 and this would improve the Group's overall profitability. Monthly production of ferrules may reach the full capacity of 300,000 pieces per month by June 2002. With a lean cost structure and quality craftsmanship, the Board believes that the ferrules produced by the Group can maintain competitive advantage over those produced by other manufacturers. The demand for ferrules will grow in 2003 when the telecommunication service providers revive their capacity expansion projects. In addition, consumers' demand for higher bandwidth will also increase demand for ferrules.

To meet its objective of establishing itself as one of the global players in the provision of high-precision polishing services for use on hard substances to its customers in consumer, industrial and high technology sectors, the Group will implement future plans during the coming year as set out in the Prospectus.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress of the Group compared with the business objectives as set out in the Prospectus.

Business objectives for the period from 20th July 2001 to 31st December 2001	Actual business progress
Market expansion and penetration	
Enlarge manufacturing processes of watch crystal by subcontracting to other manufacturers for providing coating services	Successfully engaged a provider of coating services for synthetic sapphire watch crystals to meet customers' coating need
Continue to promote the synthetic sapphire watch crystals to existing and new customers in Switzerland, Taiwan and Hong Kong	Continued to visit the existing and potential customers regularly in Switzerland, Taiwan and Hong Kong by the senior management to promote the Group's synthetic sapphire watch crystals
Establish business relationships with selected manufacturers of high-end wristwatches in Switzerland	Solicited a few high-end wristwatches manufacturers in Switzerland for possible development of business relationship
Production capacity and efficiency enhancement	
Install new equipment and machinery for the manufacture of synthetic sapphire watch crystals in Fuqing Plant amounting to approximately HK$3.5 million	Installation of new equipment and machinery in Fuqing Plant for the manufacture of synthetic sapphire watch crystals was completed in October 2001
Install new production facilities for the manufacture of ferrules with a production capacity of approximately 300,000 pieces per month	Installation of the first phase equipment and machinery for the manufacture of ferrules was completed. Test production of ferrule blanks was commenced in December 2001. Delivery of the new equipment and machinery for the second phase will be made by end of March 2002
Increase the number of production staff by about 30 persons for the manufacture of ferrules	No additional production staff was hired during the period under review in response to slowdown in the demand for synthetic sapphire watch crystals and the delay in the installation of the new machinery and equipment for the second phase for the manufacture of ferrules

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (cont'd)

Business objectives for the period from 20th July 2001 to 31st December 2001	Actual progress
Continue to devise new production methods and processes for the manufacture of synthetic sapphire watch crystals	New production method for polishing double cylindrical synthetic sapphire watch crystals was developed resulting in the reduction of production time
Increase the amount of testing equipment for improving testing results of product and application development	Addition of computer controlled testing equipment for testing the concentricity of ferrules
Increase resources on coordinating with customers, marketing staff for seeking up-to-date market and product trends	Marketing and production managers visited Swiss customers to understand their needs and solved some production issues on site
Continue to explore the feasibility of the development of synthetic sapphire jewellery, LCD projector windows and sapphire wafers	Trial production of LCD projector windows was completed and awaiting for potential customers' response to our quotation. Continued to develop synthetic sapphire jewellery and sapphire wafers
Complete the product development of ferrules	Development of 1.25 mm ferrules was in progress. Research and development efforts were focused on volume production of 2.5 mm ferrules
Product development	
Commence production of ferrules in the range of capacity of 150,000 to 200,000 pieces per month	Production of ferrules was delayed in accordance with the change in delivery schedule of machinery and equipment in second phase. Production is expected to commence in April 2002
Continue to introduce new models of watch crystal products	Introduced new model of double spherical watch crystals with 11 mm thickness. Samples were sent to customer for quality assessment

USE OF PROCEEDS

The Company obtained net proceeds, after deducting of related expenses, of approximately HK$19.4 million from the new issue of shares by way of placing and public offer. During the period from 10th August 2001 (the date of listing of the Company's shares on the GEM) to 31st December, 2001, the Group has applied the net proceeds as follows:

	Budgeted amount to be used up to 31st December 2001 as extracted from the Prospectus	**Actual amount used up to 31st December 2001**
	HK$ million	*HK$ million*
Expansion of the Group's production facilities for the manufacture of synthetic sapphire watch crystal	3.8	3.8
Purchase of machinery and equipment for the production of ferrules	12.0	12.0
Research and development expenses	0.6	0.4
Working capital	1.6	3.2
Net proceeds from new issues	18.0	19.4

The Directors anticipate that with the available cash resources, cash generated from operations, amount available under its banking facilities, combined with the remaining net proceeds, there will be no material adverse effect on the business plan of the Group and the funds will be sufficient to meet the anticipated working capital requirements and capital commitment totalling HK$2.8 million of the Group in the foreseeable future.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31st December 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 18th January 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.

On 21st July 2001, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM, the Company acquired the entire issued share capital of Oriental Light (Holdings) Limited through a share swap and became the ultimate holding company of the Group. Details of the Reorganisation are set out in the Prospectus.

The Company's shares were listed on the GEM on 10th August 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by principal activities and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

Details of the combined results of the Group for the year ended 31st December 2001 are set out in the consolidated profit and loss accounts on page 20.

The Directors do not recommend the payment of a final dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 24 and note 22 to the accounts respectively.

DONATIONS

The Group did not make any charitable donation during the year.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 21 to the accounts.

REPORT OF THE DIRECTORS (cont'd)

DISTRIBUTABLE RESERVES

As at 31st December 2001 the Company's distributable reserves balance was HK$1,595,608 (2000: nil).

SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December 2001 are set out in note 13 to the accounts.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exists under the Company's articles of association or under the laws in the Cayman Islands, being the jurisdiction in which the Company is incorporated.

GROUP FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last three financial years is set out on page 49.

PURCHASE, SALE, REDEMPTION OR CANCELLATION OF SHARES BY THE COMPANY AND/OR SUBSIDIARIES

One issued share of US$1.00 held by Dynasty Resources Limited was repurchased at par by the Company out of the proceeds of the 80 shares of HK$0.10 each issued during the reorganisation and was cancelled upon the repurchase. Save as disclosed above, the Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

Executive Directors

Mr. LIAO Lien Shen, aged 64, is the Chairman and one of the founders of the Group. He has over 20 years of experience in trading and manufacturing of wristwatches in Taiwan. During the period, he has gained extensive understanding of the watch manufacturing industry, especially in the watch crystal manufacturing sector. He is responsible for the Group's overall business planning and policy making.

Mr. LIAO Ko Ping, aged 39, is the managing Director and one of the founders of the Group. He is responsible for formulating and monitoring the Group's overall strategic plan and development. He is also in charge of the marketing of the Group's manufactured products and development of the Group's overseas sales. Prior to the establishment of the Group in September 1992, he had over 9 years of experience in trading and manufacturing of wristwatches in Taiwan. He is a son of Mr. Liao Lien Shen and the elder brother of Mr. Liao Chin Te.

Ms. MA Chin Jong aged 35, is the deputy managing Director of the Group responsible for the supervision of the daily operations of the Group in Taiwan and overseeing the overall administration of the Group. She joined the Group in March 1996. Ms. Ma is the spouse of Mr. Liao Ko Ping.

Mr. Liao Chin Te, aged 36, is the executive Director of the Group responsible for the supervision of the finance and manufacturing operations of the Group. Prior to joining the Group in April 2001, he had worked in a financial institution in Taiwan as a senior manager of loan and marketing department for over 3 years. Mr. Liao graduated with a bachelor degree and a master degree of Arts from the New York University in the U.S.. He is a son of Mr. Liao Lien Shen and the younger brother of Mr. Liao Ko Ping.

Independent non-executive Directors

Mr. TAM Yeung Kai, Vicko, aged 45, is an assistant general manager of a building company in Hong Kong engaged in the installation of aluminium windows, responsible for finance and administration. He holds a bachelor degree in commerce from Curtin University of Technology, Western Australia. Mr. Tam worked for one of the international accounting firms in Hong Kong for 4 years and has over 12 years of experience in finance and company secretary with listed companies in Hong Kong. Mr. Tam is appointed as an independent non-executive Director with effect from 1st August, 2001.

Mr. Cheng, Isaac, aged 41, is a financial controller of an international distribution company in charge of overall financial management. He holds a master degree in business administration, a bachelor degree in commerce and is a member of Certified General Accountants' Association of Canada. He has 18 years of experience in finance and administration with multinational manufacturing and distribution companies. He is appointed as an independent non-executive Director with effect from 1st August, 2001.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has a service contract with the Company for an initial fixed term of two years commencing on 16th July, 2001 and will continue thereafter unless and until terminated by either party by not less than three months' prior written notice.

Save as disclosed share, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company was a party and in which any of the Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions, which also constitute related party transactions and are set out in note 30 to the accounts. The Stock Exchange has, subject to certain conditions, granted waivers to the Company from compliance with the requirements stipulated in Rules 20.35 and 20.36 of the GEM Listing Rules to disclose details of such connected transactions by press notice and/or to obtain prior independent shareholders' approval. The independent non-executive Directors have reviewed these transactions and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available to independent third parties; and

(c) in accordance with the relevant agreement(s) governing them and on terms that are fair and reasonable and in the interests of the shareholders as a whole;

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, the interests of the Directors in the shares of the Company and its subsidiaries as recorded in the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name	Number of shares	Nature of interests	Approximate percentage of interests
Mr. Liao Lien Shen	80,000,000	corporate interests *through his holding of the entire issued shares of and in Grandford Holdings Limited*	13.33%
Mr. Liao Ko Ping	30,203,336	personal interests	5.03%
Ms. Ma Chin Jong	210,000,000	corporate interests *through her holding of the entire issued shares of and in Dynasty Resources Limited*	35.00%

DIRECTORS' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

Save as disclosed above, none of the Directors or chief executive of the Company or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate, or had exercised any such right as at 31st December, 2001.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 2001, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following persons (in addition to the interests of Mr. Liao Lien Shen, Mr. Liao Ko Ping (Note 1) and Ms. Ma Chin Jong (Note 1) as disclosed above) were interested in 10 per cent. or more of the issued share capital of the Company:

Name	Number of shares	Approximate percentage of issued shares
OMAX Technologies, Inc. *(Note 2)*	70,006,666	11.67%

Notes:

1. Mr. Liao Ko Ping and Ms. Ma Chin Jong are spouses and their deemed interest in the Company was 240,203,336 shares representing approximately 40.03% of the entire issued share capital of the Company.

2. By virtue of section 8(2)(a) of the SDI Ordinance, Mr. Huang Ching Fang, Mr. Huang Ching Yun, Mr. Huang Sheng Chia and Mr. Kodo Yasumasa, being the beneficial shareholders of OMAX Technologies, Inc. who are collectively entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of OMAX Technologies, Inc. are deemed to be interested in 70,006,666 Shares. Mr. Huang Ching Fang is also interested in 2,670,000 shares of the Company which are held by Taiunion Investment Limited, a company incorporated in the British Virgin Islands, the entire issued capital of which is beneficially owned by Mr. Huang Ching Fang.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the entire issued share capital of the Company as at 31st December, 2001.

MANAGEMENT SHAREHOLDERS' INTERESTS

Other than the interests disclosed above in respect of the substantial shareholders, Directors and chief executive of the Company and their associates, as at 31st December, 2001, no other person is individually and/or collectively entitled to exercise or control the exercise of five per cent. or more of the voting power at the general meetings of the Company and are able, as a practicable manner, to direct or influence the management of the Company.

SENIOR MANAGEMENT

Mr. CHANG Ming Hsi, aged 33, is the special assistant to the managing Director. He joined the Group in January 1996 and is responsible for the administration and cost control of production of Fuqing Plant. He graduated in 世界新聞專業學校 majoring in public communication in Taiwan. Prior to joining the Group, he had over 2 years of experience in management consulting.

Mr. CHANG Wen Ling, aged 38, is the factory manager of the Fuqing Plant. He is responsible for the management of technical support, production and quality control of the Group's product. Prior to joining the Group in July 1995, he had 9 years' experience in managing production lines of optoelectronic products in Taiwan.

Mr. WONG Chi Wing CGA, ACMA, aged 41, is the financial controller responsible for the overall financial planning and management of the Group. Mr. Wong holds a bachelor of Arts (Hons) degree in accountancy from the Hong Kong Polytechnic University. He is an associate member of the Chartered Institute of Management Accountants and an associated member of the Certified Accountants Association of Ontario. Prior to joining the Group in April 2001, he had worked for a number of multinational companies and gained over 16 years of experience in finance and administration.

SHARE OPTIONS

On 21st July 2001, the Company adopted a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the section headed "Share Option Scheme" in appendix IV to the Prospectus. Since the adoption of the Share Option Scheme, the Company has not granted any option under the Share Option Scheme to its Directors and employees.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of sales for the year generated from the Group's major customers are as follows:

– the largest customer	13%
– five largest customers	42%

The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	56%
– five largest suppliers	76%

None of the directors, their associates or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's share capital) had an interest in any of the Group's five largest customers and suppliers for the year ended 31st December, 2001.

REPORT OF THE DIRECTORS (cont'd)

BOARD PRACTICES AND PROCEDURES

During the period from 10th August, 2001 (the date of listing of the Company's shares on GEM) to 31st December, 2001, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

INTERESTS OF SPONSORS

TIS Securities (Hong Kong) Limited ("TIS Securities") and CSC Asia Limited ("CSC Asia") have entered into a sponsorship agreement with the Company whereby, TIS Securities and CSC Asia will receive a fee for acting as the Company's continuing sponsor for the period from 10th August, 2001 to 31st December, 2003.

None of TIS Securities and CSC Asia, their directors, employees and associates, has any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st December, 2001.

COMPETING INTERESTS

As at 31st December, 2001, none of the Directors or the substantial shareholders or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or might compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee on 1st August 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two members, namely Mr. Tam Yeung Kai, Vicko, and Mr. Cheng, Isaac, both are independent non-executive Directors of the Company. The chairman of the audit committee is Mr. Tam Yeung Kai, Vicko.

The audit committee met 3 times since its formation to review quarterly results of the Group and the annual accounts for the year ended 31st December 2001 prior to recommending such accounts to the board of the Directors for approval.

AUDITORS

The accounts have been jointly audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong and Chan, Wong, Chung & Co., Certified Public Accountants, Hong Kong who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On Behalf of the Board
Liao Lien Shen
Chairman

Hong Kong, 25th March 2002

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the accounts on pages 20 to 48 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. 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 judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed 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. 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.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Chan, Wong, Chung & Co.
Certified Public Accountants

Hong Kong, 25th March 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	**2001 HK$**	2000 HK$
Turnover	3	**45,393,083**	49,104,906
Cost of sales		**(33,516,609)**	(41,305,581)
Gross profit		**11,876,474**	7,799,325
Other revenues	3	**169,656**	31,392
Distribution costs		**(1,647,964)**	(1,217,027)
Administrative expenses		**(7,447,985)**	(5,257,066)
Other operating (expenses)/income, net		**(715,173)**	576,738
Operating profit	4	**2,235,008**	1,933,362
Finance costs	5	**(432,637)**	(250,513)
Profit before taxation		**1,802,371**	1,682,849
Taxation	6	**(404,143)**	(317,858)
Profit attributable to shareholders	7	**1,398,228**	1,364,991
Basic earnings per share	8	**0.29 cent**	0.34 cent

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2001

	Note	2001 HK$	2000 HK$
Non-current assets			
Fixed assets	11	**50,552,234**	15,000,402
Assets under construction	12	**8,988,683**	1,374,766
		59,540,917	16,375,168
Current assets			
Inventories	14	**7,109,511**	3,454,121
Trade receivables	15	**10,053,856**	13,630,066
Deposits, prepayments and other receivables		**611,659**	409,014
Amount due from a related company	16	**–**	72,544
Tax recoverable		**344,416**	–
Pledged deposits	17	**10,620,000**	–
Bank balances and cash	18	**3,091,628**	524,470
		31,831,070	18,090,215
Current liabilities			
Trade payables	19	**5,674,847**	10,986,935
Accrued charges and other payables		**5,631,164**	2,206,025
Taxation payable		**1,378,905**	1,797,772
Short-term bank loans, secured	20	**15,774,570**	1,869,159
		28,459,486	16,859,891
Net current assets		**3,371,584**	1,230,324
Total assets less current liabilities		**62,912,501**	17,605,492
Financed by:			
Share capital	21	**60,000,000**	12,000,000
Reserves		**2,912,501**	(18,529,666)
Shareholders' funds/(capital deficiency)		**62,912,501**	(6,529,666)
Non-current liabilities			
Amount due to a pre-listing independent investor	23	**–**	5,000,000
Amounts due to shareholders	24	**–**	19,135,158
		–	24,135,158
		62,912,501	17,605,492

Liao Lien Shen
Director

Liao Ko Ping
Director

BALANCE SHEET

AS AT 31ST DECEMBER 2001

	Note	2001 HK$
Non-current assets		
Investments in subsidiaries	13	**52,644,602**
Current assets		
Deposits, prepayments and other receivables		**178,080**
Pledged deposit	17	**10,000,000**
Bank balances and cash		**78,274**
		10,256,354
Current liabilities		
Accrued charges and other payables		**1,305,348**
Net current assets		**8,951,006**
Total assets less current liabilities		**61,595,608**
Financed by:		
Share capital	21	**60,000,000**
Reserves	22	**1,595,608**
		61,595,608

Liao Lien Shen
Director

Liao Ko Ping
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	2001 HK$	2000 HK$
Net cash inflow from operating activities	27(a)	**974,316**	1,864,938
Returns on investments and servicing of finance			
Interest received		**169,656**	12,536
Interest paid		**(432,637)**	(250,513)
Net cash outflow from returns on investments and servicing of finance		**(262,981)**	(237,977)
Taxation			
Hong Kong profits tax paid		**(1,080,250)**	–
Overseas tax paid		**(87,176)**	–
Total taxation paid		**(1,167,426)**	–
Investing activities			
Purchase of fixed assets		**(31,343,565)**	(10,930,505)
Additions of assets under construction		**(9,218,630)**	(1,374,766)
Net cash outflow from sale of a subsidiary	27(b)	**(7,010)**	–
Net cash outflow from investing activities		**(40,569,205)**	(12,305,271)
Net cash outflow before financing		**(41,025,296)**	(10,678,310)
Financing	27(c)		
Issue of shares		**16**	–
Repurchase of share		**(8)**	–
Net (repayments to)/contributions from shareholders		**(6,097,677)**	4,952,296
Repayment of bank loan		**(1,869,159)**	(934,579)
Bank loans raised		**15,774,570**	1,869,159
Proceeds from issue of convertible notes		**27,000,000**	–
Proceeds from placing and public offer of the Company's shares, net of share issuing expenses		**19,404,712**	–
Advance from a pre-listing independent investor		**–**	5,000,000
Net cash inflow from financing		**54,212,454**	10,886,876
Increase in cash and cash equivalents		**13,187,158**	208,566
Cash and cash equivalents at 1st January		**524,470**	315,904
Cash and cash equivalents at 31st December		**13,711,628**	524,470
Analysis of the balances of cash and cash equivalents			
Pledged deposits		**10,620,000**	–
Bank balances and cash		**3,091,628**	524,470
		13,711,628	524,470

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	Share capital HK$	Share premium HK$	Contributed surplus HK$	Revaluation reserve HK$	Exchange reserve HK$	Accumulated losses HK$	Total HK$
At 1st January 2000		12,000,000	–	–	–	–	(19,830,358)	(7,830,358)
Currency translation differences		–	–	–	–	(64,299)	–	(64,299)
Transfer to accumulated losses		–	–	–	–	64,299	(64,299)	–
Net losses not recognised in the profit and loss account		–	–	–	–	–	(64,299)	(64,299)
Profit for the year		–	–	–	–	–	1,364,991	1,364,991
At 31st December 2000	21(g)	12,000,000	–	–	–	–	(18,529,666)	(6,529,666)
At 1st January 2001		12,000,000	–	–	–	–	(18,529,666)	(6,529,666)
Surplus arising on revaluation of land use rights and leasehold properties	11(b)	–	–	–	3,690,347	–	–	3,690,347
Currency translation differences		–	–	–	–	(51,128)	–	(51,128)
Transfer to accumulated losses		–	–	–	–	51,128	(51,128)	–
Net gains and losses not recognised in the profit and loss account		–	–	–	3,690,347	–	(51,128)	3,639,219
Issue of shares	21(a) and (b)(ii)	16	–	–	–	–	–	16
Repurchase of share	21(b)(iii)	(8)	–	–	–	–	–	(8)
Capitalisation of amounts due to shareholders	27(c)(i)	3,000,000	–	–	–	–	–	3,000,000
Contribution from a shareholder	27(c)(iii)	10,000,000	–	–	–	–	–	10,000,000
Contributed surplus arising from reorganisation	21(c)(ii)	(24,610,008)	10,002,035	14,607,973	–	–	–	–
Issue of shares upon placing and public offer	21(d)	9,000,000	18,000,000	–	–	–	–	27,000,000
Share issue expenses		–	(7,595,288)	–	–	–	–	(7,595,288)
Issue of shares upon conversion of convertible notes	21(e)	10,666,666	21,333,334	–	–	–	–	32,000,000
Capitalisation issue	21(f)	39,943,334	(39,943,334)	–	–	–	–	–
Profit for the year		–	–	–	–	–	1,398,228	1,398,228
At 31st December 2001		60,000,000	1,796,747	14,607,973	3,690,347	–	(17,182,566)	62,912,501

NOTES TO THE ACCOUNTS

1. Group reorganisation

The Company was incorporated in the Cayman Islands on 18th January 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.

On 21st July 2001, pursuant to a group reorganisation (the "Reorganisation") undertaken for the purpose of the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"), the Company acquired the entire issued share capital of Oriental Light (Holdings) Limited ("OLH") through a share swap and became the holding company of OLH and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the Company dated 27th July 2001.

The Company's shares were listed on the GEM on 10th August 2001.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA").

The Reorganisation referred to in note 1 above is accounted for using merger accounting pursuant to SSAP 27 "Accounting for Group Reconstructions", under which the accounts of the Company and the consolidated accounts of OLH are combined as if the Reorganisation has been carried out from 14th July 1994, the date of incorporation of OLH. The difference between the par value of the shares of OLH and the par value of the Company's shares issued in exchange for the shares in OLH is recognised as contributed surplus under shareholders' equity in the consolidated balance sheet.

The Company was incorporated on 18th January 2001. Accordingly, the comparative figures of the Group's consolidated accounts presented for the year ended 31st December 2000 comprise only the figures of the consolidated accounts of OLH, which include the accounts of OLH and its subsidiaries for the year then ended, prepared on the basis of acquisition accounting.

No balance sheet of the Company as at 31st December 2000 is presented in the accounts, as the Company has not yet been incorporated on that date.

In the current year, the Group adopted the following SSAPs issued by the HKSA which are applicable to the Group's accounting periods commencing on or after 1st January 2001:

SSAP 1 (revised)	:	Presentation of financial statements (early adoption)
SSAP 14 (revised)	:	Leases
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

NOTES TO THE ACCOUNTS (cont'd)

2. Principal accounting policies (cont'd)

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Apart from the Reorganisation, 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 or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

(c) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds for the long-term more than half of the issued share capital.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Foreign currencies

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

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any exchange differences thus arising are dealt with as a movement in reserves.

(e) Fixed assets

(i) Land use rights and leasehold properties

Land use rights and leasehold properties are stated at fair value less subsequent amortisation/depreciation and impairment losses.

2. Principal accounting policies (cont'd)

(e) Fixed assets (cont'd)

(i) Land use rights and leasehold properties (cont'd)

Fair value is determined by the directors based on independent valuations which are performed every four years. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the directors review the carrying value of the land use rights and leasehold properties and adjustment is made where they consider that there has been a material change. 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.

Land use rights are amortised on a straight-line basis over the remaining period of the land use rights.

Depreciation on leasehold properties is calculated to write off their costs less accumulated impairment losses on a straight-line basis over the unexpired periods of the leases or, where appropriate, their estimated useful lives to the Group, whichever is shorter. The annual depreciation rate used for this purpose is 5%.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold improvements are depreciated over the period of respective leases, or where appropriate, their estimated useful lives to the Group, whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	25%
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus of the same asset, in which case it is treated as a revaluation decrease.

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. Any revaluation reserve attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

NOTES TO THE ACCOUNTS (cont'd)

2. Principal accounting policies (cont'd)

(f) Assets under construction

Assets under construction comprise factory buildings under construction and plant, machinery and equipment pending installation. Assets under construction are stated at cost. No depreciation is provided on assets under construction until they are transferred to fixed assets for use.

(g) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Cost of raw materials is calculated on the weighted average basis, by reference to invoiced value. Cost of work-in-progress and finished goods, calculated on the weighted average basis, comprise materials, direct labour and an appropriate proportion of all production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Trade receivables

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

(i) 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, deposits held at call with banks less bank overdrafts.

(j) Deferred taxation

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

(k) 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 of shipment.

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

(l) 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 profit and loss account on a straight-line basis over the lease periods.

2. Principal accounting policies (cont'd)

(m) Retirement benefit costs

Contributions to defined contribution retirement schemes are charged to the profit and loss account as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(n) Research and development costs

Research and development costs are charged to the profit and loss account as incurred.

(o) Borrowing costs

Borrowing costs are charged to the profit and loss account as incurred.

(p) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(q) Segment reporting

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.

Segment revenues comprise segment turnover arising from the sale of goods. Segment expenses comprise the cost of sales and distribution costs. Unallocated revenues and expenses represent other corporate revenues and expenses. Segment assets consist primarily of plant and machinery and related purchase deposits, inventories and trade receivables. Segment liabilities consist of trade payables and payables in respect of purchases of plant and machinery. Capital expenditure comprises additions to fixed assets and assets under construction.

In respect of geographical segment reporting, sales are based on the region where the customer is located. Total assets and capital expenditure are based on where the assets are located.

NOTES TO THE ACCOUNTS (cont'd)

3. Turnover, revenue and segment information

The Group is principally engaged in the manufacturing and trading of synthetic sapphire watch crystals. In 2001, the Group commenced research and development of optoelectronic products comprising ferrules and sleeves.

Revenues recognised during the year are as follows:

	2001 HK$	2000 HK$
Turnover		
Sales of synthetic sapphire watch crystals, net of sales returns, discounts and business tax	**45,393,083**	49,104,906
Other revenues		
Interest income	**169,656**	12,536
Sundry income	**–**	18,856
	169,656	31,392
Total revenues	**45,562,739**	49,136,298

3. Turnover, revenue and segment information (cont'd)

Primary reporting format – business segments

Year ended 31st December 2001

	Synthetic sapphire watch crystals HK$	Optoelectronic products HK$	Group HK$
Turnover	45,393,083	–	45,393,083
Segment results	10,228,510	–	10,228,510
Unallocated revenues			169,656
Unallocated expenses			(8,163,158)
Operating profit			2,235,008
Finance costs			(432,637)
Profit before taxation			1,802,371
Taxation			(404,143)
Profit attributable to shareholders			1,398,228
Segment assets	33,678,066	33,154,466	66,832,532
Unallocated assets			24,539,455
Total assets			91,371,987
Segment liabilities	5,674,847	1,867,720	7,542,567
Unallocated liabilities			20,916,919
Total liabilities			28,459,486
Capital expenditure	7,449,509	33,154,466	
Depreciation	2,296,871	–	

For the year ended 31st December 2000, the Group had only one single business segment which was the manufacturing and sales of synthetic sapphire watch crystals. On this basis, the segment information for this sole business segment is equivalent to the consolidated figures.

NOTES TO THE ACCOUNTS (cont'd)

3. Turnover, revenue and segment information (cont'd)

Secondary reporting format – geographical segments

Year ended 31st December 2001

	Turnover HK$	Total assets HK$	Capital expenditure HK$
Europe	31,452,818	5,803,857	–
Hong Kong	10,047,304	22,433,115	67,560
Taiwan	3,892,961	2,105,954	8,055
People's Republic of China ("PRC")	–	61,029,061	42,354,300
Total	45,393,083	91,371,987	42,429,915

Year ended 31st December 2000

	Turnover HK$	Total assets HK$	Capital expenditure HK$
Europe	18,148,707	3,898,682	–
Hong Kong	23,255,574	8,727,808	118,375
Taiwan	7,700,625	2,420,202	–
PRC	–	19,418,691	12,186,896
Total	49,104,906	34,465,383	12,305,271

4. Operating profit

Operating profit is stated after crediting and charging the following:

	2001 HK$	2000 HK$
Crediting:		
Net exchange gain	**347,970**	1,340,906
Gain on sale of a subsidiary	**82,799**	–
Charging:		
Auditors' remuneration	**450,000**	500,000
Bad debts written off	**–**	42,681
Cost of inventories sold	**32,031,530**	40,952,032
Depreciation	**2,954,513**	2,616,871
Operating lease rentals		
– land and buildings (note (a))	**175,582**	179,243
– other fixed assets	**12,028**	–
Provision for doubtful debts	**103,602**	–
Provision for slow-moving inventories	**2,541,880**	–
Research and development costs (excluding staff costs) (note (c))	**300,732**	227,100
Staff costs (notes (a), (b) and (c))	**7,828,375**	7,327,266

Notes:

(a) Operating lease rentals for land and buildings incurred in respect of a staff quarter provided to a director of the Company of HK$35,944 (2000: HK$111,917) have been dealt with under staff costs.

(b) Staff costs include employees' retirement benefit costs of HK$203,825 (2000: HK$62,096) (note 9) and emoluments of HK$422,853 (2000: HK$526,921) paid to the executive directors of the Company (note 10(a)).

(c) Of the total staff costs, HK$689,806 (2000: HK$730,483) was attributed to research and development activities of the Group.

5. Finance costs

	2001 HK$	2000 HK$
Interest on bank loans wholly repayable within five years	**324,784**	97,126
Interest on bank overdrafts	**12,632**	–
Interest on discounting of cheques	**69,015**	153,387
Incidental borrowing costs	**26,206**	–
	432,637	250,513

NOTES TO THE ACCOUNTS (cont'd)

6. Taxation

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	2001 HK$	2000 HK$
Hong Kong profits tax (note (i))	**217,624**	60,493
Overseas taxation (note (ii))	**155,301**	257,365
Underprovisions in prior years	**31,218**	–
	404,143	317,858

Notes:

(i) Hong Kong profits tax has been provided for at the rate of 16% (2000: 16%) on the respective estimated assessable profits of the companies within the Group operating in Hong Kong during the year.

(ii) Overseas taxation represented tax charge on the estimated assessable profits of a PRC subsidiary calculated at rates prevailing in the PRC.

One subsidiary which operates in the PRC is subject to a preferential income tax rate of 15% (2000: 15%) on its taxable profit. The subsidiary has been granted full exemption from the enterprises income tax for two years from its first profit-making year, for tax purposes, (being the year ended 31st December 1998) followed by a 50% reduction in tax rate for the following three years.

The Taiwan branch which operates in Taiwan is subject to an income tax rate of 30% (2000: 30%) on its assessable profits. The Taiwan branch has no assessable profit chargeable to income tax for each of the two years ended 31st December 2001 and 2000.

(b) Deferred taxation for the year has not been (provided)/credited in respect of the following:

	2001 HK$	2000 HK$
Tax losses	**(215,070)**	(406,501)
Timing differences in depreciation	**(309,968)**	(26,752)
Other timing differences	**59,193**	260,936
	(465,845)	(172,317)

7. Profit attributable to shareholders

Included in the profit attributable to shareholders is a loss of HK$201,139 (2000: Nil) dealt with in the accounts of the Company.

8. Earnings per share

The calculation of basic earnings per share for the year ended 31st December 2001 is based on the Group's profit for the year of HK$1,398,228 and the weighted average of 481,461,189 ordinary shares in issue during the year.

The basic earnings per share for the year ended 31st December 2000 is calculated based on the profit of HK$1,364,991 and an aggregate of 403,333,336 ordinary shares, comprising 3,900,000 shares in issue subsequent to the Reorganisation (notes 21(a), (b) and (c)) and 399,433,336 shares issued pursuant to the capitalisation issue to the then shareholders of the Company (the "Capitalisation Issue") (note 21(f)), which were deemed to have been in issue throughout the year ended 31st December 2000.

Diluted earnings per share is not presented as the Company had no potential dilutive ordinary shares at 31st December 2001 and 2000.

9. Retirement benefit costs

	2001 HK$	2000 HK$
Retirement benefit costs		
PRC (note (a))	**170,000**	60,396
Hong Kong (note (b))	**33,825**	1,700
	203,825	62,096

Notes:

(a) Pursuant to the relevant regulations of the provincial governments in the PRC, a subsidiary of the Group in the PRC participates in a retirement benefit scheme organised by the provincial government (the "Provincial Scheme") whereby the subsidiary is required to contribute to the Provincial Scheme to fund the retirement benefits for eligible employees. Contributions made to the Provincial Scheme are calculated based on certain percentages of the employee's basic salary. The provincial government is responsible for the entire retirement obligations payable to the retired employees. The only obligation of the Group is to pay the ongoing required contributions.

The retirement benefit costs in respect of the Provincial Scheme represent the contributions paid and payable. At 31st December 2001, there were no outstanding contributions payable to the Provincial Scheme (2000: Nil).

(b) Following the enactment of the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") with effect from 1st December 2000, a subsidiary of the Group in Hong Kong commenced to operate a mandatory provident fund scheme for its Hong Kong employees (the "MPF Scheme"). Monthly contributions made by the subsidiary are calculated at 5% of the employees' relevant income as defined in the MPF Ordinance, subject to a maximum of HK$1,000 per employee.

The retirement benefit costs in respect of the MPF Scheme represent the contributions paid and payable. At 31st December 2001, contributions of HK$3,078 (2000: HK$1,700) were payable to the MPF Scheme and were included in accrued charges and other payables.

NOTES TO THE ACCOUNTS (cont'd)

10. Directors' and senior management's emoluments

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

	2001 HK$	2000 HK$
Fees	**15,781**	–
Salaries, allowances and benefits in kind	**422,853**	526,921
	438,634	526,921

During the year, two out of the four executive directors of the Company received emoluments of HK$185,714 and HK$237,139 (2000: HK$215,238 and HK$311,683) and waived their emoluments of HK$6,991 and HK$13,982 respectively. The other two executive directors waived their emoluments of HK$116,653 and HK$4,710 respectively. No directors waived or agreed to waive any emoluments during the year ended 31st December 2000.

Directors' fees disclosed above represent fees payable to the independent non-executive directors.

(b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2001 include one (2000: one) director whose emoluments are reflected in the analysis presented above. The aggregate emoluments paid and payable to the remaining four (2000: four) individuals during the year are as follows:

	2001 HK$	2000 HK$
Salaries, allowances and benefits in kind	**1,168,667**	1,108,575

(c) The emoluments of all the above directors and employees fell within the band of Nil to HK$1,000,000 (2000: Nil to HK$1,000,000).

(d) During the year, the Group has not paid any emoluments to the directors or the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2000: Nil).

11. Fixed assets

Group

	Land use rights and leasehold properties HK$	Leasehold improve-ments HK$	Plant and machinery: Synthetic sapphire watch crystals HK$	Plant and machinery: Opto-electronic products HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
Cost or valuation							
At 1st January 2001	3,839,885	18,000	32,920,070	–	1,683,864	607,410	39,069,229
Additions	73,113	–	3,475,762	29,140,862	521,548	–	33,211,285
Transfer from assets under construction (note 12)	1,604,713	–	–	–	–	–	1,604,713
Surplus on revaluation (note (b))	2,492,569	–	–	–	–	–	2,492,569
At 31st December 2001	8,010,280	18,000	36,395,832	29,140,862	2,205,412	607,410	76,377,796
Accumulated depreciation							
At 1st January 2001	1,037,708	18,000	21,558,009	–	847,700	607,410	24,068,827
Charge for the year	328,538	–	2,296,871	–	329,104	–	2,954,513
Written back upon revaluation (note (b))	(1,197,778)	–	–	–	–	–	(1,197,778)
At 31st December 2001	168,468	18,000	23,854,880	–	1,176,804	607,410	25,825,562
Net book value							
At 31st December 2001	7,841,812	–	12,540,952	29,140,862	1,028,608	–	50,552,234
At 31st December 2000	2,802,177	–	11,362,061	–	836,164	–	15,000,402

The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows :

	Land use rights and leasehold properties HK$	Leasehold improve-ments HK$	Plant and machinery: Synthetic sapphire watch crystals HK$	Plant and machinery: Opto-electronic products HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
At cost	10,280	18,000	36,395,832	29,140,862	2,205,412	607,410	68,377,796
At valuation (note (b))	8,000,000	–	–	–	–	–	8,000,000
	8,010,280	18,000	36,395,832	29,140,862	2,205,412	607,410	76,377,796

At 31st December 2000, all of the Group's fixed assets were stated at cost less accumulated depreciation.

NOTES TO THE ACCOUNTS (cont'd)

11. Fixed assets (cont'd)

Notes:

(a) The Group's land use rights and leasehold properties are located in the PRC and held under a medium–term lease.

(b) For the purpose of the listing of the Company's shares on the GEM, at 31st May 2001, the Group's land use rights and leasehold properties were revalued jointly by two independent firms of professional valuers, FPDSavills (Hong Kong) Limited and Midland Surveyors Limited, on the existing use open market value basis. The directors of the Company reviewed the carrying value of the Group's land use rights and leasehold properties as at 31st December 2001 and are of the opinion that the fair value of the assets is not materially different from the carrying amount.

(c) The carrying amount of the Group's land use rights and leasehold properties would have been HK$4,223,249 (2000: HK$2,802,177) had they been stated at cost less accumulated depreciation.

(d) At 31st December 2001, the Group's land use rights and leasehold properties with an aggregate net book value of HK$7,841,812 (2000: HK$2,802,177) were pledged as security to secure a short-term bank loan (notes 20 and 26).

12. Assets under construction

Group

		Plant and machinery		
	Leasehold properties HK$	**Synthetic sapphire watch crystals** HK$	**Optoelectronic Products** HK$	**Total** HK$
At 1st January 2000	–	–	–	–
Additions	1,374,766	–	–	1,374,766
At 31st December 2000	1,374,766	–	–	1,374,766
At 1st January 2001	1,374,766	–	–	1,374,766
Additions	1,231,279	3,973,747	4,013,604	9,218,630
Transfer to fixed assets (note 11)	(1,604,713)	–	–	(1,604,713)
At 31st December 2001	1,001,332	3,973,747	4,013,604	8,988,683

13. Investments in subsidiaries

	Company
	2001 **HK$**
Unlisted shares, at cost	**10,392,027**
Amounts due from subsidiaries	**42,252,575**
	52,644,602

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

NOTES TO THE ACCOUNTS (cont'd)

13. Investments in subsidiaries (cont'd)

Details of subsidiaries held by the Company at 31st December 2001 are as follows:

Name	Place of incorporation or establishment	Principal activities / place of operation	Particulars of issued and paid up share capital / registered capital	Equity interest held
Interest held directly:				
Oriental Light (Holdings) Limited	British Virgin Islands	Investment holding / Hong Kong	25,000,000 shares of HK$1 each	100%
Interest held indrectly:				
Oriental Light Industries Limited	Hong Kong	Investment holding and trading of synthetic sapphire watch crystals / PRC, Hong Kong and Taiwan	1,000,000 shares of HK$1 each	100%
Oriental Light (Fuqing) Co., Ltd.	PRC	Manufacturing of synthetic sapphire watch crystals / PRC	Total registered capital being HK$33,000,000 of which HK$28,000,000 being paid up	100%
Fast Systems Limited	British Virgin Islands	Trading of synthetic sapphire watch crystals / Taiwan and Europe	1 share of US$1	100%
Fast Systems Limited	Hong Kong	Dormant	2 shares of HK$1 each	100%
Principle Industries Limited	British Virgin Islands	Investment holding / Hong Kong	1 share of US$1	100%
Superjet Technologies Limited	Hong Kong	Investment holding / PRC	2 shares of HK$1 each	100%
Fujian Superjet Technologies Co., Ltd.	PRC	Manufacturing of ferrules / PRC	Total registered capital being US$5,000,000 not yet paid up	100%

NOTES TO THE ACCOUNTS (cont'd)

14. Inventories

	Group	
	2001 HK$	2000 HK$
Raw materials	**250,449**	218,904
Work-in-progress	**1,716,082**	1,652,262
Finished goods	**5,142,980**	1,582,955
	7,109,511	3,454,121

At 31st December 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK$2,541,880 (2000: Nil).

15. Trade receivables

The Group's terms on credit sales primarily range from 30 to 90 days.

At 31st December 2001, the ageing analysis of the trade receivables were as follows:

	Group	
	2001 HK$	2000 HK$
Current	**4,669,551**	6,777,875
31 – 60 days	**1,297,334**	3,409,509
61 – 90 days	**994,975**	1,981,725
Over 90 days	**3,091,996**	1,460,957
	10,053,856	13,630,066

16. Amount due from a related company

This represented an amount due from Li An Trading Company Limited ("Li An Trading"). Li An Trading is owned and/or controlled by Mr. Liao Lien Shen, Mr. Liao Ko Ping, Mr. Liao Chin Te and their family members. Both Mr. Liao Lien Shen and Mr. Liao Ko Ping are directors and, directly or indirectly, shareholders of the Company, while Mr. Liao Chin Te is a director of the Company.

The amount due from Li An Trading was unsecured, interest free and was fully settled during the year. The balance of HK$72,544 brought forward from 31st December 2000 was the maximum amount outstanding during the year.

17. Pledged deposits

At 31st December 2001, bank deposits of the Group totalling HK$10,620,000 (2000: Nil) were pledged as security for a short-term bank loan (note 20) of the Group.

At 31st December 2001, bank deposit of the Company of HK$10,000,000 (2000: Nil) was pledged as security for a short-term bank loan granted by a bank to a subsidiary of the Group.

18. Bank balances and cash

At 31st December 2001, included in the Group's bank balances and cash were amounts of approximately HK$1,279,089 (2000: approximately HK$295,189) denominated in Renminbi ("RMB") and kept in the PRC. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

19. Trade payables

At 31st December 2001, the ageing analysis of the trade payables were as follows:

	Group	
	2001 **HK$**	2000 HK$
Current	**1,326,865**	3,666,633
31 – 60 days	**1,595,565**	2,789,241
61 – 90 days	**760,428**	4,531,061
Over 90 days	**1,991,989**	–
	5,674,847	10,986,935

20. Short-term bank loans, secured

At 31st December 2001, the short-term bank loans were secured respectively by a pledge of the Group's land use rights and leasehold properties with an aggregate net book value of HK$7,841,812 (2000: HK$2,802,177) (note 11(d)), a pledge of the Group's bank deposits totalling HK$10,620,000 (2000: Nil) (note 17) and an unlimited corporate guarantee provided by the Company.

21. Share capital

	2001 **HK$**
Authorised: 10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000,000**
Issued and fully paid: 600,000,000 ordinary shares of HK$0.10 each	**60,000,000**

(a) The Company was incorporated in the Cayman Islands on 18th January 2001 with an authorised capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each. One share was allotted and issued at par for cash on that date.

NOTES TO THE ACCOUNTS (cont'd)

21. Share capital (cont'd)

(b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 26th March 2001:

(i) the authorised share capital of the Company was increased to an aggregate of US$50,000 and HK$390,000 by the creation of an additional 3,900,000 ordinary shares of HK$0.10 each;

(ii) 80 ordinary shares of HK$0.10 each were issued at par for cash;

(iii) the one issued share of US$1.00 was repurchased at par by the Company out of the proceeds of the issue referred to in note (ii) above and was cancelled upon the repurchase; and

(iv) the authorised but unissued share capital of the Company was reduced by the cancellation of 50,000 ordinary shares of US$1.00 each.

(c) Pursuant to the written resolutions of the sole shareholder of the Company passed on 21st July 2001:

(i) the authorised share capital of the Company was increased from HK$390,000 to HK$1,000,000,000 by the creation of an additional 9,996,100,000 new ordinary shares of HK$0.10 each which rank pari passu with the existing shares, and

(ii) an aggregate of 3,899,920 ordinary shares of HK$0.10 each were allotted and issued, credited as fully paid, as consideration for the acquisition by the Company of the entire share capital of OLH. The excess of the consolidated net assets of OLH and its subsidiaries at that date over the par value of the Company's shares issued was credited to the share premium account of the Company.

(d) The Placing and Public Offer

On 8th August 2001, 70,200,000 ordinary shares of HK$0.10 each were issued by way of placing at a premium of HK$0.20 per share for cash (the "Placing"). On the same date, 19,800,000 ordinary shares of HK$0.10 each were issued to the public at a premium of HK$0.20 per share for cash (the "Public Offer"). The excess of the issue price over the par value of the shares issued upon the Placing and Public Offer totalling HK$18,000,000 was credited to the share premium account of the Company.

(e) The Conversion

On 8th August 2001, convertible notes of the aggregate principal amount of HK$32,000,000 were converted into 106,666,664 ordinary shares of HK$0.10 each (the "Conversion"). The excess of the book value of the convertible notes over the par value of the share issued totalling HK$21,333,334 was credited to the share premium account of the Company.

(f) The Capitalisation Issue

On 8th August 2001, immediately after the Placing, Public Offer and Conversion, 399,433,336 ordinary shares of HK$0.10 each were allotted and issued at par, credited as fully paid, to the shareholders in proportion to their respective shareholdings on the register of members of the Company at the close of business on 21st July 2001 by way of the capitalisation of the share premium available.

(g) The share capital in the consolidated balance sheet as at 31st December 2000 represented the issued and fully paid share capital of OLH at that date.

22. Reserves

Company

	Share premium HK$	Accumulated losses HK$	Total HK$
Acquisition of OLH (note 21(c)(ii))	10,002,035	–	10,002,035
Issue of shares upon Placing and Public Offer (note 21(d))	18,000,000	–	18,000,000
Share issue expenses	(7,595,288)	–	(7,595,288)
Issue of shares upon Conversion (note 21(e))	21,333,334	–	21,333,334
Capitalisation Issue (note 21(f))	(39,943,334)	–	(39,943,334)
Loss for the period	–	(201,139)	(201,139)
As at 31st December 2001	1,796,747	(201,139)	1,595,608

23. Amount due to a pre-listing independent investor

This amount represented an advance from a pre-listing independent investor. The amount was unsecured, interest free and was applied to settle the consideration of a convertible note of equivalent principal value issued to him on 20th March 2001 (note 27(c)(ii)). The convertible note was interest free. On 19th July 2001, the right attached to the convertible note was exercised in full and accordingly, on 8th August 2001, 16,666,666 shares in the Company were issued and allotted to him.

24. Amounts due to shareholders

The amounts due to shareholders were unsecured and interest free. During the year, HK$3,000,000 was applied to pay up the allotment of shares in OLH (note 27(c)(i)); HK$37,481 was reduced upon the sale of a subsidiary (note 27(b)) and the remaining amounts were settled in cash.

25. Deferred taxation

At 31st December 2001, the potential deferred taxation assets/(liabilities) not recognised in the accounts amount to:

	Group	
	2001 HK$	2000 HK$
Tax losses carried forward	**–**	215,070
Timing differences in respect of depreciation	**745,288**	1,055,256
Other timing differences	**(180,267)**	(239,460)
	565,021	1,030,866

At 31st December 2001, the Company had no material unrecognised deferred taxation (2000: Nil).

NOTES TO THE ACCOUNTS (cont'd)

26. Banking facilities

At 31st December 2001, the Group had the following banking facilities:

(a) short-term bank loan of RMB2,000,000 (2000: RMB2,000,000) secured by a pledge of the Group's land use rights and leasehold properties (note 11(d));

(b) short-term bank loans of HK$20,000,000 (2000: Nil) secured by a pledge of bank deposits in the sum of HK$20,000,000, charged to the bank upon the draw down of the loans, and an unlimited corporate guarantee provided by the Company (note 29); and

(c) trade finance facility of HK$4,000,000 (2000: Nil) secured by an unlimited corporate guarantee provided by the Company (note 29).

At 31st December 2001, of the above banking facilities, short-term bank loans of RMB2,000,000 (2000: RMB2,000,000) and HK$11,705,411 (2000: Nil) and trade finance facility of HK$2,200,000 were utilised respectively (note 20).

27. Notes to the consolidated cash flow statement

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

	2001	2000
	HK$	HK$
Operating profit	**2,235,008**	1,933,362
Interest income	**(169,656)**	(12,536)
Depreciation	**2,954,513**	2,616,871
Gain on sale of a subsidiary	**(82,779)**	–
Increase in inventories	**(3,655,390)**	(303,585)
Decrease/(increase) in trade receivables	**3,576,210**	(6,879,095)
Increase in deposits, prepayments and other receivables	**(202,645)**	(32,299)
(Decrease)/increase in trade payables	**(5,312,088)**	8,664,626
Increase in accrued charges and other payables	**1,718,985**	756,859
Net change in the amounts due from/to a related company	**(36,714)**	(4,814,966)
Exchange differences	**(51,128)**	(64,299)
Net cash inflow from operating activities	**974,316**	1,864,938

NOTES TO THE ACCOUNTS (cont'd)

27. Notes to the consolidated cash flow statement (cont'd)

(b) Sale of a subsidiary

	2001 HK$	2000 HK$
Net assets disposed of:		
Bank balances and cash	**17,010**	–
Amount due from a related company	**109,258**	–
Accrued charges and other payables	**(161,566)**	–
Amounts due to shareholders	**(37,481)**	–
	(72,779)	–
Gain on disposal	**82,779**	–
Satisfied by cash	**10,000**	–
Analysis of net cash outflow from sale of a subsidiary		
Cash consideration	**10,000**	–
Bank balances and cash of disposed subsidiary	**(17,010)**	–
	(7,010)	–

(c) Analysis of changes in financing

	Share capital HK$	Share premium and contributed surplus HK$	Amounts due to shareholders HK$	Convertible notes HK$	Amount due to a pre-listing independent investor HK$	Short-term bank loans HK$
At 1st January 2000	12,000,000	–	14,182,862	–	–	934,579
Repayment of bank loan	–	–	–	–	–	(934,579)
Bank loan raised	–	–	–	–	–	1,869,159
Contributions from shareholders	–	–	4,952,296	–	–	–
Advance from a pre-listing independent investor	–	–	–	–	5,000,000	–
At 31st December 2000	12,000,000	–	19,135,158	–	5,000,000	1,869,159

NOTES TO THE ACCOUNTS (cont'd)

27. Notes to the consolidated cash flow statement (cont'd)

(c) Analysis of changes in financing (cont'd)

	Share capital HK$	Share premium and contributed surplus HK$	Amounts due to shareholders HK$	Convertible notes HK$	Amount due to a pre-listing independent investor HK$	Short-term bank loans HK$
At 1st January 2001	12,000,000	–	19,135,158	–	5,000,000	1,869,159
Issue of shares (notes 21(a) and (b)(ii))	16	–	–	–	–	–
Repurchase of share (note 21(b)(iii))	(8)	–	–	–	–	–
Capitalisation of amounts due to shareholders (note (c)(i))	3,000,000	–	(3,000,000)	–	–	–
Contribution from a shareholder (note (c)(iii))	10,000,000	–	–	–	–	–
Sale of a subsidiary (note (b))	–	–	(37,481)	–	–	–
Repayment of bank loan	–	–	–	–	–	(1,869,159)
Bank loans raised	–	–	–	–	–	15,774,570
Repayments to shareholders	–	–	(16,097,677)	–	–	–
Issue of convertible notes (note (c)(ii))	–	–	–	32,000,000	(5,000,000)	–
Contributed surplus arising from the Reorganisation (note 21(c)(ii))	(24,610,008)	24,610,008	–	–	–	–
Issue of shares upon Placing and Public Offer (note 21(d))	9,000,000	18,000,000	–	–	–	–
Share issue expenses	–	(7,595,288)	–	–	–	–
Issue of shares upon Conversion (note 21(e))	10,666,666	21,333,334	–	(32,000,000)	–	–
Capitalisation Issue (note 21(f))	39,943,334	(39,943,334)	–	–	–	–
At 31st December 2001	60,000,000	16,404,720	–	–	–	15,774,570

Notes:

(i) On 20th February 2001, amounts due to shareholders in the total sum of HK$3,000,000 were applied to pay up the allotment of 3,000,000 ordinary shares of HK$1 each in OLH (note 24).

27. Notes to the consolidated cash flow statement (cont'd)

(c) Analysis of changes in financing (cont'd)

(ii) The Company issued convertible notes to four pre-listing independent investors on respective dates as follows:

	Principal amount HK$
20th March 2001	5,000,000
20th March 2001	5,000,000
20th March 2001	2,000,000
2nd May 2001	20,000,000
	32,000,000

The consideration of one of the above convertible notes with a principal amount of HK$5,000,000 issued on 20th March 2001 was settled by the application of an amount due to a pre-listing independent investor of HK$5,000,000 brought forward from 31st December 2000 (note 23).

(iii) On 17th July 2001, 10,000,000 ordinary shares of HK$1 each in OLH were allotted to a then shareholder of OLH at a cash consideration of HK$10,000,000.

(d) Major non-cash transactions

The major non-cash transactions carried out by the Group are disclosed in notes 21(c)(ii), 21(e), 21(f), 27(c)(i) and 27(c)(ii) above.

28. Commitments

(a) Capital commitments

At 31st December 2001, the Group had capital commitments of HK$2,753,028 (2000: Nil) contracted but not provided for in respect of the purchases and construction of fixed assets.

As 31st December 2001, the Company had no capital commitments (2000: Nil).

(b) Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		**Other fixed assets**	
	2001 HK$	2000 HK$	**2001 HK$**	2000 HK$
Less than one year	**53,900**	186,686	**12,600**	–
More than one year and less than five years	**–**	93,186	**27,300**	–
	53,900	279,872	**39,900**	–

At 31st December 2001, the Company had no commitments under operating leases (2000: Nil).

NOTES TO THE ACCOUNTS (cont'd)

29. Contingent liabilities

At 31st December 2001, the Group had no material contingent liabilities (2000: Nil).

The Company provided an unlimited corporate guarantee for banking facilities of subsidiaries aggregating to HK$24,000,000 (2000: Nil), of which HK$13,905,411 (2000: Nil) was utilised at 31st December 2001 (note 26).

30. Related party transactions

In addition to those transactions with related parties as disclosed in notes 16, 23 and 24 to the accounts, the following significant related party transactions have been undertaken by the Group during the year:

	2001 **HK$**	2000 HK$
Continuing transactions:		
Sales of synthetic sapphire watch crystals to Li An Trading (note (a))	**125,074**	1,017,816
Transactions discontinued upon listing of the Company's shares on the GEM:		
Interest on discounting cheques to the spouse of a shareholder (note (b))	**11,534**	–
Interest on discounting cheques to a shareholder (note (b))	**–**	153,387
Purchases of fixed assets from Li An Trading (note (c))	**–**	8,858,758

(a) Sales of synthetic sapphire watch crystals to Li An Trading were conducted at prices and terms similar to those charged to other third party customers of the Group.

(b) During the year, cheques received by the Group from customers totalling HK$488,495 were discounted to Ms. Lin Gin Mei, the spouse of Mr. Chang Wu Hsiung, an indirect shareholder of the Company. Interest was charged based on the face value of the cheques at an average daily rate of 0.033%, which is equivalent to approximately 12.80% per annum.

In 2000, cheques received by the Group from customers totalling HK$3,862,079 were discounted to Mr. Chang Wu Hsiung. Interest was charged based on the face value of the cheques at an average daily rate of 0.028%, which was equivalent to approximately 10.76% per annum.

(c) Fixed assets were purchased from Li An Trading at the cost charged by suppliers plus related administration and transportation costs.

31. Approval of accounts

The accounts were approved by the board of directors on 25th March 2002.

THREE-YEAR FINANCIAL SUMMARY

	2001 HK$	2000 HK$	1999 HK$
Results			
Turnover	**45,393,083**	49,104,906	26,687,576
Profit/(loss) attributable to shareholders	**1,398,228**	1,364,991	(2,397,103)
Total assets	**91,371,987**	34,465,383	29,280,894
Total liabilities	**28,459,486**	40,995,049	37,111,252
Net assets/(liabilities)	**62,912,501**	(6,529,666)	(7,830,358)