

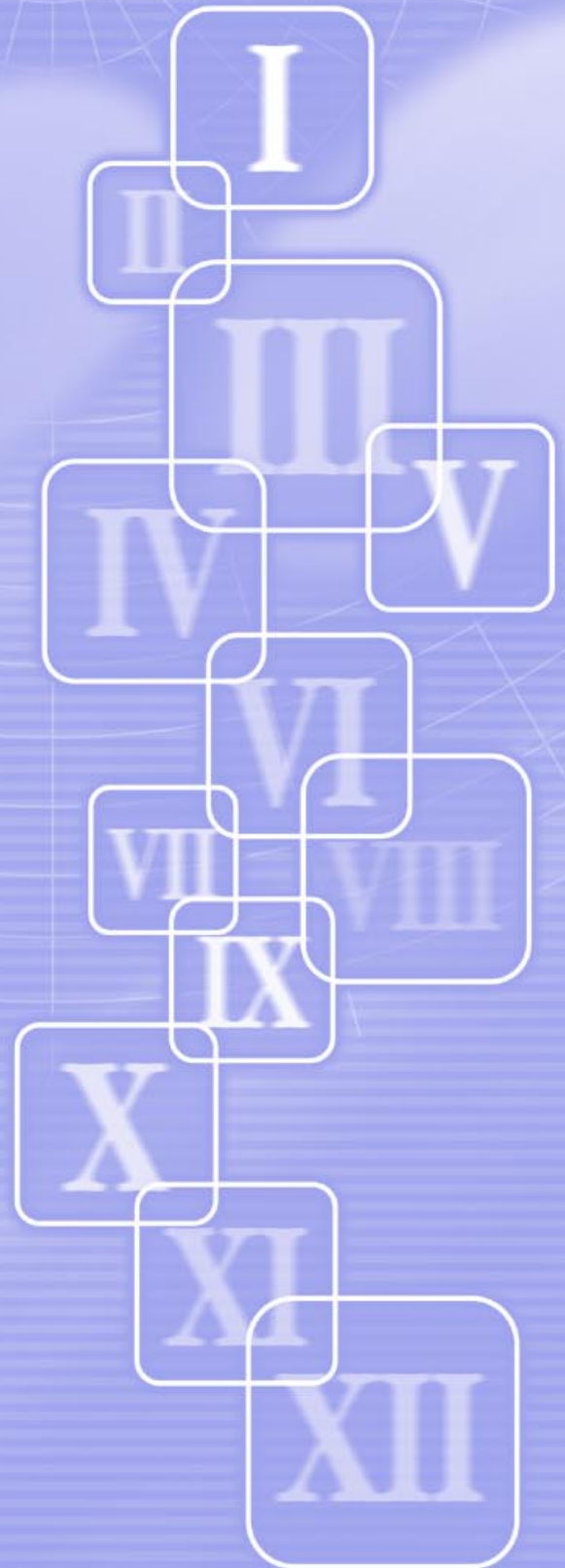
ANNUAL REPORT 2002 • • • • •



**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 of the Stock Exchange of Hong Kong Limited**

The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“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

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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. 7-8, 10th 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 Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited The Bank of East Asia Limited
Sponsors	TIS Securities (HK) Limited CSC Asia Limited
Joint auditors	PricewaterhouseCoopers <i>Certified Public Accountants</i>  Chan, Wong, Chung & Co. <i>Certified Public Accountants</i>
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 Unit No. 7-8, 10th Floor, Grand City Plaza, Nos. 1-17 Sai Lau Kok Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 28th May 2003 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 2002;
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

## Notice of Annual General Meeting

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- (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
- (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) subject to paragraph (b) of this resolution, 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;

## Notice of Annual General Meeting

(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.

6. **THAT:**

conditional upon resolutions nos. 4 and 5 above being duly passed, the unconditional general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with additional Shares pursuant to resolution no. 4 above be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such amount 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.

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

Hong Kong, 30th April 2003

*Head office and principal place of business in Hong Kong:*

Office Unit No. 7-8, 10th Floor

Grand City Plaza

Nos. 1-17 Sai Lau Kok Road

Tsuen Wan

New Territories

Hong Kong

## Notice of Annual General Meeting

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*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 notorially certified copy of that power or authority, at the office of the Company's Hong Kong branch registrar, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, 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 2002.
5. The register of members of the Company will be closed from 23rd May 2003 (Friday) to 28th May 2003 (Wednesday), both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 22nd May 2003 (Thursday).



Year 2002 was a challenging year for the Group. The global economic downturn, the aftermath of September 11 terrorist attacks in the United States, the Afghanistan war and the war in Iraq contributed to hurt the Group's financial results for the year ended 31st December 2002.

The worldwide slowdown in the demand for luxurious watches resulted in a reduction in sales of sapphire watch crystals in 2002. Sales to prestigious Swiss wristwatches manufacturers in 2002 dropped drastically while sales to Hong Kong market reduced mildly. However, the Group was able to increase its sales of sapphire watch crystals to the Taiwan market to partially offset this. Overall sales of sapphire watch crystal in 2002 reduced by 14% to HK\$38.9 million.

During 2002, the Group was able to install, test and commission 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.

In addition, the Group started to distribute prestigious Swiss wristwatches in Taiwan in 2002. This new business division recorded sales of HK\$5.3 million in 2002. The Group will further expand its watches distribution business by both expanding its secured distributorship and obtaining more distributorship to complement its range of wristwatches.

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 energy and skills during the past year. We are operating as a Group with an unparalleled committed team and I look forward to a productive year in 2003.

**Liao Lien Shen**  
*Chairman*

Hong Kong, 22nd April 2003

## Management Discussion and Analysis

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### FINANCIAL REVIEW

#### Turnover

Total turnover of the Group for the year ended 31st December 2002 amounted to HK\$44,165,820, representing a 2.7% decrease from that of HK\$45,393,083 generated in the year ended 31st December 2001.

#### Sapphire watch crystals division

Sales of sapphire watch crystals to Swiss customers in 2002 reduced drastically as Swiss customers reduced their purchases after the September 11 terrorist attack in the United States and Afghanistan war.

During 2002, the Group strategically focused its effort on serving the Taiwanese wristwatches manufacturers and successfully increased the sales to customers in Taiwan to HK\$10,668,165, representing a 174.0% increase from that of HK\$3,892,961 in the year ended 31st December 2001. However, turnover generated from Swiss customers reduced to HK\$20,109,033, representing a 36.1% decrease from that of HK\$31,452,818 generated in the year ended 31st December 2001. Turnover from Hong Kong customers also reduced to HK\$8,107,322 in the year ended 31st December 2002, representing a 19.3% decrease from that of HK\$10,047,304 generated in the year ended 31st December 2001.

The turnover of the sapphire watch crystals for the year ended 31st December 2002 decreased by HK\$6,508,563, cost of sales of the sapphire watch crystals during the same period decreased to HK\$30,649,705 from that of HK\$33,516,609 in the year ended 31st December 2001. Gross profit margin for the division decreased to approximately 21.2% in the year ended 31st December 2002 from 26.2% in the year ended 31st December 2001. The decrease in gross profit margin was primarily attributable to the decrease in contribution from sales of higher value added synthetic sapphire watch crystals to Swiss customers.

#### Watches distribution division

The Group started a watches distribution division in 2002 and recorded a turnover of HK\$5,281,300 for the year ended 31st December 2002. Cost of sales for the same period was HK\$3,212,695 and the gross profit margin for the division was 39.2%.

#### Optoelectronics products division

No sale of ferrules was recorded in 2002.

#### Other revenue

Other revenue for the year ended 31st December 2002 amounted to HK\$20,594, representing a decrease of approximately 87.9% from that of HK\$169,656 generated in the year ended 31st December 2001.

Other revenue represented the interest income generated during the year on bank deposits from temporary unused cash. The temporary unused cash generated from proceeds from listing in 2001 was used to finance the ferrules project and thus interest generated in 2002 was much lower than that of in 2001.

### Distribution costs, administrative and other operating expenses

Distribution costs for the year ended 31st December 2002 amounted to HK\$1,060,305. This represented a decrease of HK\$587,659 from that for the year ended 31st December 2001. The decrease in distribution costs was a result of the reduction in sales of sapphire watch crystals to customers in Europe in 2002.

Total administrative expenses were HK\$8,375,854 for the year ended 31st December 2002 and HK\$7,447,985 for the year ended 31st December 2001, representing an increase of HK\$927,869. This was mainly due to the increase of net marketing, advertising and promotion expenses for the new watches distribution division of HK\$870,676 (2001: nil).

Other operating expenses were HK\$3,168,364 in 2002 and HK\$715,173 in 2001, representing an increase of HK\$2,453,191. This was mainly due to other operating expenses of HK\$2,042,409 incurred for the establishment of the new optoelectronic products division in 2002 (2001: nil). Professional fees were HK\$1,086,944 for the year ended 31st December 2002, representing an increase of HK\$567,192.

### Financial resources and liquidity

The Group's shareholders' funds were reduced to HK\$59,640,766 as at 31st December 2002 (2001: HK\$62,912,501) due to loss incurred in 2002. Current assets amounted to HK\$21,761,131 as at 31st December 2002 (2001: HK\$31,831,070), of which HK\$1,058,253 (2001: HK\$3,091,628) were bank and cash balances. Bank borrowings of HK\$3,350,000 as at 31st December 2002 (2001: HK\$13,905,411) were secured by corporate guarantee. The remaining bank borrowings of HK\$5,028,145 (2001: HK\$1,869,159) were secured by corporate guarantee and a mortgage on the Group's property interests in the PRC with net book value amounted to HK\$7,472,045 (2001: 7,841,812).

As at 31st December 2002, the Group's total borrowings amounted to HK\$8,378,145 (2001: HK\$15,774,570), of which approximately HK\$5,028,145 was denominated in US dollar and the remaining balances were denominated in Hong Kong dollars. As at 31st December 2002, HK\$7,024,413 (2001: HK\$15,774,570) were short-term bank borrowings repayable within one year. Both the US dollar denominated loan and the Hong Kong dollar denominated loans are floating rate loans.

The Group's gearing ratio, calculated basing on bank borrowings and shareholders' equity, as at 31st December 2002 was 14% (2001: 25%).

### Foreign currency risk

During the year under review, around HK\$20 million of the Group's sales was denominated in Swiss Francs while around HK\$17.6 million of the Group's purchases was denominated in Euro/Swiss Francs.

There has been no significant change in exchange rate between Swiss Francs and Euro/Swiss Francs in 2002. 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.

## Management Discussion and Analysis

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### Contingent liabilities

As at 31st December 2002, the Group had no material contingent liabilities.

### Employees

As at 31st December 2002, the Group had 296 employees of which 6 employees were located in Hong Kong. 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 costs including directors' remuneration for 2002 were HK\$6,783,483 (2001: HK\$7,828,375).

### Convertible bonds

During the year ended 31st December 2002, the Company did not issue or subscribe for any convertible notes. Four convertible notes for a total principal amount of HK\$32,000,000 were issued and converted during 2001.

### Major acquisitions

During the year, the Group acquired fixed assets and incurred additions to assets under construction totalling HK\$5,794,251 (2001: HK\$42,429,915), for the expansion of the watch crystals production facilities and the set up of the optoelectronic products production facilities.

### Capital structure

There has been no change in the capital structure of the Company for the year under review.

### Material acquisitions and disposals of subsidiaries and affiliated companies

The Group had no acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31st December 2002.

### Segmental information

Details have been set out in Note 2 to the audited accounts and further elaborated under "Financial Review" of this section.

## BUSINESS REVIEW

During the year under review, the Group managed to increase its sales of sapphire watch crystals to Taiwanese customers to partially offset the decrease in sales from both Swiss and Hong Kong markets.

## Management Discussion and Analysis

However, such shift in sales mix caused a drop in profit margin and in year 2002, the overall gross profit margin of the synthetic sapphire watch crystal division was 21.2%, which was lower than that of 26.2% achieved in year 2001.

The new watches distribution division generated sales of HK\$5,281,300 in 2002 and the gross profit margin was 39.2%.

During 2002, the Group installed machineries and equipments in the PRC for the production of ferrules.

Trial production of ferrules was completed in August 2002 and there were around 170,000 pieces of finished ferrules and around 130,000 pieces of work-in-progress ferrules as at 31st December 2002. Sales of ferrules did not commence in 2002.

### PROSPECTS

The demand for synthetic sapphire watch crystals were affected due to the sluggish consumer spending as a result of the global economic slow down and the uncertainty caused by the current warfare between the US and its allies against Iraq. However, orders for synthetic sapphire watch crystals is expected to rebound in the second quarter of 2003, in pace with economic recovery in the US.

Despite the global economic downturn, the Group will not slow down its momentum as 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 Group expects to broaden its optoelectronic products and enter the coupler market in the second half of 2003.

The Board expects monthly production of ferrules to reach 300,000 pieces per month by May 2003, and sales of ferrules commenced in the first quarter of 2003.

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 quality bandwidth services will also increase the demand for ferrules. The rapid growth of the telecommunication industry in PRC will also provide new business opportunities for the Group.

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.

The Group signed 3 distributorship agreements with Swiss wristwatch manufacturers in 2002 and the Board expects this new business division to contribute positively to the Group's net profit.

## 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 for the year ended 31st December 2002.

Business objectives as set out in the prospectus	Actual business progress as at 31st December 2002
<i>Market expansion and penetration</i>	
Continue the market expansion activities from the last period	Secured 2 new Hong Kong customers
Commence market promotion and campaign for synthetic sapphire jewellery	Marketing activity put on hold as the market potential is not clear during such economic uncertainty
Commence market promotion and campaign for sleeves	Marketing activity put on hold until the demand for fibre optic components revive
<i>Production capacity and efficiency enhancement</i>	
Increase the production of ferrules in Fuqing Plant in the range of 250,000 pieces to 300,000 pieces per month	Production was delayed due to delay in machines delivery. Production was in the range of 100,000 pieces per month in the 4th quarter of 2002. Production capacity is expected to increase to 300,000 pieces per month in May 2003.
Increase the production of sleeves in the range of 50,000 pieces to 100,000 pieces per month	Project is on hold until the demand for fibre optic components revive
Increase the number of production staff by 10 persons for the manufacture of sleeves	Implementation is on hold until demand for fibre optic components revive
Increase the number of production staff by 10 persons for the manufacture of synthetic sapphire jewellery	Implementation is on hold as the market potential is not clear during such economic uncertainty
<i>Research and development improvement</i>	
Continue the research and development activities from the last period	No further research and development work on LCD projector windows and sapphire wafers until the economy revive
Complete the product development and testing of synthetic sapphire jewellery	Project is on hold as the market potential is not clear during such economic uncertainty
Continue the product development and testing of LCD projector windows and sapphire wafers	No further research and development work on LCD projector windows and sapphire wafers until the economy revive

## Comparsion of Business Objectives with Actual Business Progress

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### *Product development*

Continue to introduce new models of watch crystals products	Continue to improve the cyclope model and increase production capacity on this new model
Commence production of sleeves at 50,000 pieces per month	Project is on hold until the demand for fibre optic components revive
Commence production of synthetic sapphire jewellery at a capacity of approximately 20,000 pieces per month	Project is on hold as the market potential is not clear during such economic uncertainty

## Use of Proceeds

A comparison of the use of proceeds between the Group's business plans as stated in the Prospectus and the actual amount of application of the proceeds to achieve the Group's business objectives from 10th August 2001 (the date of listing of the Company's shares on the GEM) to 31st December 2002 is as follows:

	Budgeted amount as extracted from the Prospectus HK\$ (in million)	Proceeds already applied up to 31st December 2001 HK\$ (in million)	Proceeds already applied during 2002 HK\$ (in million)	Proceeds already applied up to 31st December 2002 HK\$ (in million)
Expansion of the Group's production facilities for the manufacture of synthetic sapphire watch crystal	3.8	3.8	—	3.8
Purchase of machinery and equipment for the production of ferrules	12.0	12.0	—	12.0
Research and development expenses	1.6	0.4	1.0	1.4
Sub-total	<u>17.4</u>	<u>16.2</u>	<u>1.0</u>	<u>17.2</u>
Working capital	<u>1.6</u>			
Net proceeds from new issues	<u>19.0</u>			



The Directors submit their report together with the audited accounts for the year ended 31st December 2002.

### **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 12 to the accounts.

An analysis of the Group's performance for the year by principal activities and geographical segments is set out in note 2 to the accounts.

### **RESULTS AND APPROPRIATIONS**

Details of the audited results of the Group for the year ended 31st December 2002 are set out in the consolidated profit and loss account on page 22.

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 26 and note 20 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 10 to the accounts.

### **DISTRIBUTABLE RESERVES**

As at 31st December 2002 the Company's distributable reserves balance was nil (2001: HK\$1,595,608).

### **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 four financial years is set out on page 56.

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

Neither the Company nor its subsidiaries has purchased, sold, redeemed or cancelled any of the Company's shares during the year.

## Report of the Directors

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### DIRECTORS

#### Executive Directors

**Mr. LIAO Lien Shen**, aged 65, 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 40, 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 Groups 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.

**Mr. Liao Chin Te**, aged 37, 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 46, 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 42, 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 27 to the accounts.

## OUTSTANDING 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. During the year, the Company has granted 60,000,000 share options under the Share Option Scheme to its directors and employees as follows:

	Options held at 1st January 2002	Options granted during the year <i>Note</i>	Options held at 31st December 2002	Exercise price <i>HK\$</i>	Grant Date	Exercisable from	Exercisable until
Liao Ko Ping	—	30,000,000	30,000,000	0.158	6th June 2002	6th June 2005	6th June 2012
Liao Lien Shen	—	19,000,000	19,000,000	0.158	6th June 2002	6th June 2005	6th June 2012
Continuous contract employees	—	11,000,000	11,000,000	0.158	6th June 2002	6th June 2005	6th June 2012

*Note:* At the date the options were granted, 6th June 2002, the market value per share was HK\$0.158 and average closing price of 5 business days prior to 6th June 2002 was HK\$0.1564.

According to the Black-Scholes option pricing model<sup>1</sup>, the value of share options granted on 6th June 2002 was estimated to be approximately HK\$7,122,000. The following variables and assumptions were made to derive the value:

1. share price: HK\$0.158, being the closing price of the shares of the Company on 6th June 2002;
2. risk-free interest rate: 5.76%, being the corresponding yield of 10-year Exchange Fund Note traded on 6th June 2002, were assumed to remain constant over the life of the share options;
3. expected life of the share options: 10 years;
4. expected volatility of the shares of the Company: 60.37%, being the annualized volatility of the monthly closing price of the shares of the Company from its date of listing, 10th August 2001, to June 2002, were assumed to remain constant over the life of the share options; and
5. no dividends would be declared during the life of the share options.

No charge is recognized in the profit and loss account in respect of the value of share options granted in the year.

<sup>1</sup> The Black-Scholes option pricing model is one of the commonly used models developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. Any changes in the variables adopted may materially affect the estimation of the value of an option.

## Report of the Directors

Given the restriction of the Black-Scholes option pricing model, the Directors would like to caution any user of this report to note that the share options granted are not publicly traded, cannot be exercised until 6th June 2005 and are not transferable, thus the value of share options granted may be reduced significantly.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors and chief executive of the Company and their associates (as defined in the GEM Listing Rules) in the shares of the Company were as follows:

Name of Director	Notes	No. of Shares held			Other interests	Total
		Personal interests	Family interests	Corporate interests		
Mr. Liao Lien Shen	1	—	—	80,000,000	—	80,000,000
Mr. Liao Ko Ping	2	1,233,336	—	195,000,000	—	196,233,336

Notes:

- 80,000,000 Shares are held by Grandford Holdings Limited which is wholly owned by Mr. Liao Lien Shen.
- 195,000,000 Shares are held by Dynasty Resources Limited which is wholly owned by Mr. Liao Ko Ping.

Save as disclosed above and herein, 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 2002.

### SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SECURITIES

As at 31st December 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons (in addition to interest of Mr. Liao Lien Shen and Mr. Liao Ko Ping disclosed above) were interested in 10% or more of the issued share capital of the Company:

Name	Number of shares	Percentage of issued share
OMAX Technologies Inc. (Note 1)	74,776,666	12.46%

Note 1: 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 74,776,666 shares representing approximately 12.46% of the entire issued share capital of the Company. 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 share 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 2002.

### MANAGEMENT SHAREHOLDERS' INTERESTS IN SECURITIES

Other than the interests disclosed above in respect of the substantial shareholders, Directors and chief executive of the Company and their associates (as defined in the GEM Listing Rules), as at 31st December 2002, no other person is individually and/or collectively entitled to exercise or control the exercise of 5% 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 34, 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 39, 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 42, 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.

### MAJOR CUSTOMERS AND SUPPLIERS

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

— the largest customer	18%
— five largest customers	56%

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

— the largest supplier	45%
— five largest suppliers	79%

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 Groups five largest customers and suppliers for the year ended 31st December 2002.

### BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year ended 31st December 2002.

## Report of the Directors

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### AUDIT COMMITTEE

As required by Rules 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Tam Yeung Kai, Vicko, and Mr. Cheng, Isaac. The chairman of the audit committee is Mr. Tam Yeung Kai, Vicko.

The audit committee last met on 22nd April 2003 to review matters in relation to the annual accounts for the year ended 31st December 2002 prior to recommending such accounts to the board of Directors for approval.

### COMPETING INTERESTS

As at 31st December 2002, none of the directors or the management shareholders (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

### INTERESTS OF SPONSORS

As at 31st December 2002, TIS Securities (HK) Limited ("TIS Securities"), one of the Company's sponsors, and Taiwan International Capital (HK) Limited, a wholly owned subsidiary of TIS Securities, held 13,760,000 Shares and 19,400,000 Shares respectively.

Pursuant to the sponsors' agreement entered into between the Company, TIS Securities and CSC Asia Limited ("CSC Asia"), TIS and CSC Asia are entitled to receive a fee for acting as the Company's continuing sponsors for the period from 10th August 2001 to 31st December 2003.

Save as disclosed above, TIS Securities, CSC Asia, their directors, employees and associates do not have any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

### 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 reappointment at the forthcoming annual general meeting.

On Behalf of the Board

**Liao Lien Shen**

*Chairman*

Hong Kong, 22nd April 2003

### 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 22 to 55 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 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

**Chan, Wong, Chung & Co.**  
*Certified Public Accountants*

Hong Kong, 22nd April 2003

## Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 HK\$	2001 HK\$
Turnover	2	44,165,820	45,393,083
Cost of sales		<u>(33,862,400)</u>	<u>(33,516,609)</u>
Gross profit		10,303,420	11,876,474
Other revenue	2	20,594	169,656
Distribution costs		(1,060,305)	(1,647,964)
Administrative expenses		(8,375,854)	(7,447,985)
Other operating expenses, net		<u>(3,168,364)</u>	<u>(715,173)</u>
Operating (loss)/profit	3	(2,280,509)	2,235,008
Finance costs	4	<u>(443,056)</u>	<u>(432,637)</u>
(Loss)/profit before taxation		(2,723,565)	1,802,371
Taxation	5	<u>(548,170)</u>	<u>(404,143)</u>
(Loss)/profit for the year	6	<u><u>(3,271,735)</u></u>	<u><u>1,398,228</u></u>
Basic (loss)/earnings per share	7	<u><u>(HK0.55 cent)</u></u>	<u><u>HK0.29 cent</u></u>



## Consolidated Balance Sheet

as at 31st December 2002

	Note	2002 HK\$	2001 HK\$
Non-current assets			
Fixed assets	10	57,609,660	50,552,234
Assets under construction	11	3,065,985	8,988,683
		<u>60,675,645</u>	<u>59,540,917</u>
Current assets			
Inventories	13	4,922,558	7,109,511
Trade receivables	14	13,587,993	10,053,856
Deposits, prepayments and other receivables	15	1,845,395	611,659
Tax recoverable		346,932	344,416
Pledged deposits	16	—	10,620,000
Bank balances and cash	17	1,058,253	3,091,628
		<u>21,761,131</u>	<u>31,831,070</u>
Current liabilities			
Trade payables	18	5,483,254	5,674,847
Accrued charges and other payables		7,411,232	5,631,164
Taxation payable		1,523,379	1,378,905
Current portion of long-term bank loan, secured	21	580,170	—
Short-term bank loans, secured		6,444,243	15,774,570
		<u>21,442,278</u>	<u>28,459,486</u>
Net current assets		<u>318,853</u>	<u>3,371,584</u>
Total assets less current liabilities		<u>60,994,498</u>	<u>62,912,501</u>
Financed by:			
Share capital	19	60,000,000	60,000,000
Reserves	20	(359,234)	2,912,501
Shareholders' funds		59,640,766	62,912,501
Non-current liabilities			
Long-term bank loan, secured	21	1,353,732	—
		<u>60,994,498</u>	<u>62,912,501</u>

Liao Lien Shen  
Director

Liao Ko Ping  
Director

## Balance Sheet

As at 31st December 2002

	Note	2002 HK\$	2001 HK\$
Non-current assets			
Investments in subsidiaries	12	<u>60,056,413</u>	<u>52,644,602</u>
Current assets			
Deposits, prepayments and other receivables		—	178,080
Pledged deposit	16	—	10,000,000
Bank balances and cash		<u>10,612</u>	<u>78,274</u>
		<u>10,612</u>	<u>10,256,354</u>
Current liabilities			
Accrued charges and other payables		391,259	1,305,348
Taxation payable		<u>35,000</u>	<u>—</u>
		<u>426,259</u>	<u>1,305,348</u>
Net current (liabilities)/assets		<u>(415,647)</u>	<u>8,951,006</u>
Total assets less current liabilities		<u>59,640,766</u>	<u>61,595,608</u>
Financed by:			
Share capital	19	60,000,000	60,000,000
Reserves	20	<u>(359,234)</u>	<u>1,595,608</u>
		<u>59,640,766</u>	<u>61,595,608</u>

**Liao Lien Shen**  
Director

**Liao Ko Ping**  
Director

## Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	2002 HK\$	2001 HK\$
Cash flows from operating activities			
Cash (absorbed by)/generated from operations	24(a)	(1,369,068)	974,316
Interest paid		(443,056)	(432,637)
Hong Kong profits tax paid		(357,171)	(1,080,250)
Overseas tax paid		(49,041)	(87,176)
		<u>(2,218,336)</u>	<u>(625,747)</u>
Net cash used in operating activities			
Cash flows from investing activities			
Interest received		20,594	169,656
Purchase of fixed assets, net of related payable		(2,712,570)	(31,343,565)
Additions of assets under construction		(346,638)	(9,218,630)
Net cash outflow from sale of a subsidiary	24(b)	—	(7,010)
Decrease/(increase) in pledged deposits		10,620,000	(10,620,000)
		<u>7,581,386</u>	<u>(51,019,549)</u>
Net cash from/(used in) investing activities			
Cash flows from financing	24(c)		
Issue of shares		—	16
Repurchase of share		—	(8)
Net repayments to shareholders		—	(6,097,677)
Repayment of bank loans		(15,774,570)	(1,869,159)
Bank loans raised		8,378,145	15,774,570
Proceeds from issue of convertible notes		—	27,000,000
Proceeds from placing and public offer of the Company's shares, net of share issue expenses		—	19,404,712
		<u>(7,396,425)</u>	<u>54,212,454</u>
Net cash (used in)/from financing			
Net (decrease)/increase in cash and cash equivalents		(2,033,375)	2,567,158
Cash and cash equivalents at beginning of year		3,091,628	524,470
		<u>1,058,253</u>	<u>3,091,628</u>
Cash and cash equivalents at end of year			
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		<u>1,058,253</u>	<u>3,091,628</u>

## Consolidated Statement of Changes In Equity

For the year ended 31st December 2002

	Note	Share capital HK\$	Share premium HK\$	Contributed surplus HK\$	Revaluation reserve HK\$	Exchange reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1st January 2001		12,000,000	—	—	—	—	(18,529,666)	(6,529,666)
Surplus arising on revaluation of land use rights and leasehold properties	10(b)	—	—	—	3,690,347	—	—	3,690,347
Exchange differences arising on translation of the financial statements of foreign subsidiaries		—	—	—	—	(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	19(a),(b)(ii)	16	—	—	—	—	—	16
Repurchase of share	19(b)(iii)	(8)	—	—	—	—	—	(8)
Capitalisation of amounts due to shareholders	19(c)	3,000,000	—	—	—	—	—	3,000,000
Contribution from a shareholder	19(d)	10,000,000	—	—	—	—	—	10,000,000
Contributed surplus arising from reorganisation	19(e)(ii)	(24,610,008)	10,002,035	14,607,973	—	—	—	—
Issue of shares upon placing and public offer	19(f)	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	19(g)	10,666,666	21,333,334	—	—	—	—	32,000,000
Capitalisation issue	19(h)	39,943,334	(39,943,334)	—	—	—	—	—
Profit for the year		—	—	—	—	—	1,398,228	1,398,228
At 31st December 2001		<u>60,000,000</u>	<u>1,796,747</u>	<u>14,607,973</u>	<u>3,690,347</u>	<u>—</u>	<u>(17,182,566)</u>	<u>62,912,501</u>
At 1st January 2002		60,000,000	1,796,747	14,607,973	3,690,347	—	(17,182,566)	62,912,501
Loss for the year		—	—	—	—	—	(3,271,735)	(3,271,735)
At 31st December 2002		<u>60,000,000</u>	<u>1,796,747</u>	<u>14,607,973</u>	<u>3,690,347</u>	<u>—</u>	<u>(20,454,301)</u>	<u>59,640,766</u>

## 1 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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these new or revised accounting standards did not have material impact to the accounts for the year ended 31st December 2002 except for the reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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, including goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

### 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (c) Translation of foreign currencies

Transactions in foreign currencies are translated 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 balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts of subsidiaries are translated at the weighted average rate during the year. Exchange differences arising in these cases are dealt with as a movement in reserves.

In prior years, the profit and loss accounts of foreign subsidiaries were translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss accounts of foreign subsidiaries in prior years have not been restated as the effect of this change is not material to the profit and loss accounts of current and prior years.

#### (d) 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.

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 account previously charged.

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%.

## 1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### (d) Fixed assets *(cont'd)*

#### (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 for 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.

### (e) 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.

### 1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

#### (f) 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.

#### (g) 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.

#### (h) 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 and bank overdrafts.

#### (i) 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 foreseeable future.

#### (j) 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, or when the goods are delivered to customers and when title has passed.

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

#### (k) Operating leases

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



**1 PRINCIPAL ACCOUNTING POLICIES** *(cont'd)***(l) Employee benefits***(i) Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

*(ii) 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.

*(iii) Equity compensation benefits*

Share options are granted to full-time executive directors and full-time employees at the directors' discretion. No compensation cost is recognised in the consolidated profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

**(m) Research and development costs**

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

**(n) Borrowing costs**

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

**(o) 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.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (p) Segment reporting

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

Unallocated expenses represent other corporate expenses. Segment assets consist primarily of plant and machinery and related purchase deposits, inventories and trade and other receivables and exclude items such as tax recoverable and bank balances and cash. Segment liabilities consist primarily of trade payables and accrued charges and other payables and exclude items such as taxation payable and other corporate borrowings. 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.

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of synthetic sapphire watch crystals and optoelectronic products and watches distribution. Revenues recognised during the year are as follows:

	2002 HK\$	2001 HK\$
Turnover		
Sales net of sales returns, discounts and business tax		
— synthetic sapphire watch crystals	38,884,520	45,393,083
— watches	5,281,300	—
	<u>44,165,820</u>	<u>45,393,083</u>
Other revenue		
Interest income	20,594	169,656
Total revenues	<u>44,186,414</u>	<u>45,562,739</u>

The Group's major business segments and their corresponding regions of operations are summarised as follows:

Business segments	Regions of operations
Synthetic sapphire watch crystals	Europe, Hong Kong, Taiwan and The People's Republic of China ("PRC")
Optoelectronic products	Hong Kong, Taiwan and the PRC
Watches distribution	Taiwan

There are no sales or other transactions among the business or geographical segments.

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)**Primary reporting format — business segments**

Year ended 31st December 2002

	Synthetic sapphire watch crystals HK\$	Optoelectronic products HK\$	Watches distribution HK\$	Group HK\$
Turnover	38,884,520	—	5,281,300	44,165,820
Segment results	4,325,444	(2,530,657)	1,197,929	2,992,716
Interest income				20,594
Unallocated expenses				(5,293,819)
Operating loss				(2,280,509)
Finance costs				(443,056)
Loss before taxation				(2,723,565)
Taxation				(548,170)
Loss for the year				(3,271,735)
Segment assets	26,170,739	39,158,103	5,268,503	70,597,345
Unallocated assets				11,839,431
Total assets				82,436,776
Segment liabilities	7,837,553	2,939,538	1,095,825	11,872,916
Unallocated liabilities				10,923,094
Total liabilities				22,796,010
Capital expenditure	1,940,903	2,671,101	—	
Depreciation	2,549,574	1,162,441	—	
Other non-cash expenses	1,480,670	—	—	

Segment assets did not include land use rights and leasehold properties and leasehold properties under construction of HK\$8,423,377 and HK\$346,638 (2001: HK\$7,841,812 and HK\$1,001,332) respectively as the directors consider that there is no meaningful basis for allocation of such balances between synthetic sapphire watch crystals and optoelectronic products businesses.

## Notes to the Accounts

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

#### Primary reporting format — business segments (cont'd)

Year ended 31st December 2001

	Synthetic sapphire watch crystals HK\$	Optoelectronic products HK\$	Watches distribution HK\$	Group HK\$
Turnover	45,393,083	—	—	45,393,083
Segment results	10,228,510	—	—	10,228,510
Interest income				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 for the year				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	—	—	
Other non-cash expenses	2,645,482	—	—	

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

## Secondary reporting format — geographical segments

	Turnover HK\$	Total assets HK\$	Capital expenditure HK\$
Year ended 31st December 2002			
Europe	20,109,033	3,230,764	—
Hong Kong	8,107,322	5,315,086	226,908
Taiwan	15,949,465	8,566,193	—
PRC	—	65,324,733	5,567,343
Total	<u>44,165,820</u>	<u>82,436,776</u>	<u>5,794,251</u>
Year ended 31st December 2001			
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
PRC	—	61,029,061	42,354,300
Total	<u>45,393,083</u>	<u>91,371,987</u>	<u>42,429,915</u>

## Notes to the Accounts

### 3 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2002 HK\$	2001 HK\$
Crediting		
Net exchange gain	391,310	347,970
Gain on sale of a subsidiary	—	82,779
	<u>391,310</u>	<u>430,749</u>
Charging		
Auditors' remuneration	455,607	450,000
Bad debts written off	155,396	—
Cost of inventories sold	32,118,993	32,031,530
Depreciation	4,653,116	2,954,513
Fixed assets written off	6,407	—
Operating lease rentals		
— land and buildings ( <i>note (a)</i> )	134,677	175,582
— other fixed assets	12,600	12,028
Provision for doubtful debts	79,000	103,602
Provision for slow-moving inventories	1,246,274	2,541,880
Research and development costs (excluding staff costs) ( <i>note (b)</i> )	509,975	300,732
Staff costs including directors' remunerations ( <i>notes (a), (b) and 8</i> )	6,783,483	7,828,375
Pre-operating expenses in respect of optoelectronic products production written off	1,693,107	—
	<u>1,693,107</u>	<u>11,241,177</u>

Notes:

- (a) Included in operating lease rentals for land and buildings for the year ended 31st December 2001 was an amount of HK\$35,944 in respect of a staff quarter provided to a director of the Company which had been dealt with under staff costs.
- (b) Of the total staff costs, HK\$487,491 (2001: HK\$689,806) was attributed to research and development activities of the Group.

### 4 FINANCE COSTS

	2002 HK\$	2001 HK\$
Interest on bank loans wholly repayable within five years	417,152	324,784
Interest on bank overdrafts	—	12,632
Interest on discounting of cheques	—	69,015
Incidental borrowing costs	25,904	26,206
	<u>443,056</u>	<u>432,637</u>

## 5 TAXATION

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

	2002 HK\$	2001 HK\$
Hong Kong profits tax ( <i>note (i)</i> )	453,000	217,624
Overseas taxation ( <i>note (ii)</i> )	95,170	155,301
Underprovisions in prior years	—	31,218
	<u>548,170</u>	<u>404,143</u>

## Notes:

- (i) Hong Kong profits tax has been provided for at the rate of 16% (2001: 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 two PRC subsidiaries and the Taiwan branch of a subsidiary ("Taiwan Branch") calculated at rates prevailing in the PRC and Taiwan respectively.

One of these PRC subsidiaries is subject to a preferential income tax rate of 15% (2001: 15%) on its taxable profit. This 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 other PRC subsidiary was in loss-making position for the current year and accordingly did not have any taxable profit.

The Taiwan Branch which operated in Taiwan was subject to an income tax rate of 30% (2001: 30%) on its assessable profits. The Taiwan Branch had no assessable profit chargeable to income tax for each of the two years ended 31st December 2002 and 2001. The Taiwan Branch was closed during the year.

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

	2002 HK\$	2001 HK\$
Tax losses	103,137	(215,070)
Timing differences in respect of depreciation	778,839	(309,968)
Other timing differences	641,617	59,193
	<u>1,523,593</u>	<u>(465,845)</u>

## 6 (LOSS)/PROFIT FOR THE YEAR

Included in the (loss)/profit for the year is a loss of HK\$1,954,842 (2001: HK\$201,139) dealt with in the accounts of the Company.

## Notes to the Accounts

### 7 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year ended 31st December 2002 is based on the Group's loss for the year of HK\$3,271,735 (2001: profit of HK\$1,398,228).

The basic (loss)/earnings per share is based on 600,000,000 (2001: weighted average of 481,461,189) ordinary shares in issue during the year. Diluted loss per share for the year ended 31st December 2002 was not presented as the conversion of share options is anti-dilutive. Diluted earnings per share for the year ended 31st December 2001 was not presented as the Company had no potential dilutive ordinary shares at 31st December 2001.

### 8 STAFF COSTS INCLUDING DIRECTORS' REMUNERATIONS

	2002 HK\$	2001 HK\$
Wages, salaries and other benefits	6,537,168	7,624,550
Retirement benefit costs		
PRC (note (a))	188,085	170,000
Hong Kong (note (b))	58,230	33,825
	<u>6,783,483</u>	<u>7,828,375</u>

Notes:

- (a) Pursuant to the relevant regulations of the provincial governments in the PRC, subsidiaries of the Company in the PRC participate in a retirement benefit scheme organised by the provincial government (the "Provincial Scheme") whereby the subsidiaries are 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 employees' 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 represent the contributions paid and payable to the Provincial Scheme. At 31st December 2002, there were no outstanding contributions payable to the Provincial Scheme (2001: Nil).

- (b) The Group contributes to a mandatory provident fund scheme (the "MPF Scheme") established under the Hong Kong Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance") for its employees in Hong Kong. Monthly contributions made by the Group are calculated at 5% of the employee's relevant income as defined in the MPF Ordinance, subject to a maximum of HK\$1,000 per employee.

The retirement benefit costs represent the contributions paid and payable to the MPF Scheme. At 31st December 2002, contributions of HK\$3,960 (2001: HK\$3,078) were payable to the MPF Scheme and were included in accrued charges and other payables.



## 9 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:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Fees	<b>74,219</b>	15,781
Salaries, allowances and benefits in kind	<b>670,813</b>	422,853
Retirement benefit costs	<b>18,908</b>	—
	<b><u>763,940</u></b>	<u>438,634</u>

During the year, three (2001: two) out of the four executive directors of the Company received emoluments of HK\$261,600, HK\$261,568 and HK\$147,645 (2001: HK\$185,714 and HK\$237,139) respectively. No directors waived or agreed to waive any emoluments during the year ended 31st December 2002. In 2001, four directors waived their emoluments of HK\$6,991, HK\$13,982, HK\$116,653 and HK\$4,710 respectively.

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

- (b) During the year, 49,000,000 options were granted to the directors under the share option scheme of the Company (the "Share Option Scheme"), details of which are set out in note 19(i) to the accounts. The market value per share at the date of grant is HK\$0.158 (2001: not applicable).

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2002 include two (2001: one) directors whose emoluments are reflected in the analysis presented above. The aggregate emoluments paid and payable to the remaining three (2001: four) individuals during the year are as follows:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Salaries, allowances and benefits in kind	<b><u>895,503</u></b>	<u>1,168,667</u>

- (c) The emoluments of all the above directors and employees are within the band of Nil to HK\$1,000,000 (2001: Nil to HK\$1,000,000).
- (d) During the year, the Group had 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 (2001: Nil).

## Notes to the Accounts

### 10 FIXED ASSETS

#### Group

	Land use rights and leasehold properties <i>HK\$</i>	Leasehold improve- ments <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
Cost or valuation						
At 1st January 2002	8,010,280	18,000	65,536,694	2,205,412	607,410	76,377,796
Additions	—	60,202	4,612,004	775,407	—	5,447,613
Transfer from assets under construction (note 11)	1,001,332	—	5,268,004	—	—	6,269,336
Written off	—	(18,000)	—	(100,327)	(139,706)	(258,033)
At 31st December 2002	9,011,612	60,202	75,416,702	2,880,492	467,704	87,836,712
Accumulated depreciation						
At 1st January 2002	168,468	18,000	23,854,880	1,176,804	607,410	25,825,562
Charge for the year	419,767	15,050	3,712,015	506,284	—	4,653,116
Written off	—	(18,000)	—	(93,920)	(139,706)	(251,626)
At 31st December 2002	588,235	15,050	27,566,895	1,589,168	467,704	30,227,052
Net book value						
At 31st December 2002	8,423,377	45,152	47,849,807	1,291,324	—	57,609,660
At 31st December 2001	7,841,812	—	41,681,814	1,028,608	—	50,552,234

**10 FIXED ASSETS** (cont'd)

The analysis of the cost or valuation of the above assets is as follows:

	<b>Land use rights and leasehold properties</b> HK\$	<b>Leasehold improve- ments</b> HK\$	<b>Plant and machinery</b> HK\$	<b>Furniture, fixtures and equipment</b> HK\$	<b>Motor vehicles</b> HK\$	<b>Total</b> HK\$
At 31st December 2002						
At cost	1,011,612	60,202	75,416,702	2,880,492	467,704	79,836,712
At valuation (note (b))	8,000,000	—	—	—	—	8,000,000
	<u>9,011,612</u>	<u>60,202</u>	<u>75,416,702</u>	<u>2,880,492</u>	<u>467,704</u>	<u>87,836,712</u>
At 31st December 2001						
At cost	10,280	18,000	65,536,694	2,205,412	607,410	68,377,796
At valuation (note (b))	8,000,000	—	—	—	—	8,000,000
	<u>8,010,280</u>	<u>18,000</u>	<u>65,536,694</u>	<u>2,205,412</u>	<u>607,410</u>	<u>76,377,796</u>

*Notes:*

- (a) The Group's land use rights and leasehold properties are located in the PRC and held on leases of between 10 to 50 years.
- (b) The Group's land use rights and leasehold properties were revalued jointly by two independent firms of professional valuers, FPD Savills (Hong Kong) Limited and Midland Surveyors Limited at 31st May 2001 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 2002 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\$4,917,759 (2001: HK\$4,223,249) had they been stated at cost less accumulated depreciation.
- (d) At 31st December 2002, the Group's land use rights and leasehold properties with an aggregate net book value of HK\$7,472,045 (2001: HK\$7,841,812) were pledged as security to secure a bank loan (notes 21 and 23).

## Notes to the Accounts

### 11 ASSETS UNDER CONSTRUCTION

#### Group

	Leasehold properties <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Total <i>HK\$</i>
At 1st January 2001	1,374,766	—	1,374,766
Additions	1,231,279	7,987,351	9,218,630
Transfer to fixed assets	(1,604,713)	—	(1,604,713)
At 31st December 2001	<u>1,001,332</u>	<u>7,987,351</u>	<u>8,988,683</u>
At 1st January 2002	1,001,332	7,987,351	8,988,683
Additions	346,638	—	346,638
Transfer to fixed assets (note 10)	(1,001,332)	(5,268,004)	(6,269,336)
At 31st December 2002	<u>346,638</u>	<u>2,719,347</u>	<u>3,065,985</u>

### 12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Unlisted shares, at cost	10,392,027	10,392,027
Amounts due from subsidiaries	<u>51,668,465</u>	<u>42,252,575</u>
	62,060,492	52,644,602
Less: Provision for impairment losses	<u>(2,004,079)</u>	<u>—</u>
	<u>60,056,413</u>	<u>52,644,602</u>

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

**12 INVESTMENTS IN SUBSIDIARIES** (cont'd)

Details of subsidiaries held by the Company at 31st December 2002 and 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	
				2002	2001
Interest held directly:					
Oriental Light (Holdings) Limited (“OLH”)	British Virgin Islands	Investment holding/ Hong Kong	25,000,000 shares of HK\$1 each	100%	100%
Interest held indirectly:					
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%	100%
Oriental Light (Fuqing) Co., Ltd.	PRC	Manufacturing of synthetic sapphire watch crystals/PRC	Total registered capital being HK\$35,500,000 (2001: HK\$33,000,000) of which HK\$33,000,000 (2001: HK\$28,000,000) being paid up	100%	100%
Fast Systems Limited	British Virgin Islands	Trading of synthetic sapphire watch crystals and distribution of watches/Taiwan and Europe	1 share of US\$1	100%	100%
Fast Systems Limited	Hong Kong	Dormant	2 shares of HK\$1 each	100%	100%

## Notes to the Accounts

### 12 INVESTMENTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation or establishment	Principal activities/place of operation	Particulars of issued and paid up share capital/registered capital	Equity interest held	
				2002	2001
Principle Industries Limited	British Virgin Islands	Investment holding/ Hong Kong	1 share of US\$1	100%	100%
Superjet Technologies Limited	Hong Kong	Investment holding/ PRC	2 shares of HK\$1 each	100%	100%
Fujian Superjet Technologies Co., Ltd.	PRC	Manufacturing of ferrules/PRC	Total registered capital being US\$7,100,000 (2001: US\$5,000,000) of which US\$5,137,350 (2001: Nil) being paid up	100%	100%

### 13 INVENTORIES

	Group	
	2002 HK\$	2001 HK\$
Raw materials	555,119	250,449
Work-in-progress	1,616,548	1,716,082
Finished goods	2,750,891	5,142,980
	<u>4,922,558</u>	<u>7,109,511</u>

At 31st December 2002, the carrying amount of inventories that are carried at net realisable value amounted to HK\$1,706,200 (2001: HK\$2,541,880).

**14 TRADE RECEIVABLES**

The Group's terms on credit sales primarily range from 30 to 120 days.

At 31st December 2002, the ageing analysis of trade receivables was as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$</b>	<b>2001</b>
		<b>HK\$</b>
Current	<b>4,983,317</b>	4,669,551
31 — 60 days	<b>2,260,814</b>	1,297,334
61 — 90 days	<b>2,206,829</b>	994,975
Over 90 days	<b>4,137,033</b>	3,091,996
	<b><u>13,587,993</u></b>	<b><u>10,053,856</u></b>

**15 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Included in deposits, prepayments and other receivables of the Group as at 31st December 2002 was an amount of HK\$200,000 (2001: Nil) due from Mr. Eric Ma Chin Han, brother-in-law of Mr. Liao Ko Ping, director of the Company. Such amount was unsecured, interest free and fully repaid on 29th January 2003. The maximum amount outstanding during the year was HK\$200,000 (2001: Nil).

**16 PLEDGED DEPOSITS**

At 31st December 2001, bank deposits of the Group totalled HK\$10,620,000 were pledged as security for a short-term bank loan of the Group. The pledge was released in 2002.

At 31st December 2001, bank deposit of the Company of HK\$10,000,000 was pledged as security for a short-term bank loan granted by a bank to a subsidiary of the Group. The pledge was released in 2002.

**17 BANK BALANCES AND CASH**

At 31st December 2002, included in the Group's bank balances and cash were amounts of approximately HK\$277,694 (2001: approximately HK\$1,279,089) 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.

## Notes to the Accounts

### 18 TRADE PAYABLES

At 31st December 2002, the ageing analysis of trade payables was as follows:

	2002 HK\$	Group 2001 HK\$
Current	2,086,001	1,326,865
31 — 60 days	1,510,216	1,595,565
61 — 90 days	801,115	760,428
Over 90 days	1,085,922	1,991,989
	<u>5,483,254</u>	<u>5,674,847</u>

### 19 SHARE CAPITAL

	2002 HK\$	2001 HK\$
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>
<i>Issued and fully paid:</i>		
600,000,000 ordinary shares of HK\$0.10 each	<u>60,000,000</u>	<u>60,000,000</u>

- (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.
- (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.



**19 SHARE CAPITAL** (*cont'd*)

- (c) 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.
- (d) 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.
- (e) 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.

- (f) 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 upon the Placing and Public Offer totalled HK\$18,000,000 was credited to the share premium account of the Company.

- (g) 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 totalled HK\$21,333,334 was credited to the share premium account of the Company.

- (h) 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.

## Notes to the Accounts

### 19 SHARE CAPITAL (cont'd)

#### (i) Share options

By a written resolution of the sole shareholder of the Company passed on 21st July 2001, the Share Option Scheme was approved and adopted.

Share options are granted to any full-time executive director or full-time employee of the Group at the directors' discretion at price determined by the board of the directors, being not less than the highest of the closing price of share of the Company as stated in the daily quotation sheet ("Quotation sheet") of the Growth Enterprises Market ("GEM") on the date of grant and the average closing price of the share of the Company as stated in the Quotation sheets for the 5 business days immediately preceding the date of grant and the nominal value of a share of the Company.

The maximum number of shares of the Company in respect of which share options may be granted under the Share Option Scheme and any other schemes of the Company must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The total number of shares of the Company available for issue under share options which may be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 60,000,000 shares, representing 10% of the shares in issue as at the date of this report unless shareholders approval has been obtained.

The share options may be exercised in accordance with terms of the Share Option Scheme at any time during the period of not less than 3 years and in any event not more than 10 years from the date of the grant of the option.

Movement in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At the beginning of year	—	—
Granted (note (i))	<u>60,000,000</u>	<u>—</u>
At the end of year (note (ii))	<u><u>60,000,000</u></u>	<u><u>—</u></u>

- (i) Share options were granted to directors and employees on 6th June 2002 at the exercise price of HK\$0.158 per share and exercisable from 6th June 2005 to 6th June 2012. The market share price on the date of grant was HK\$0.158 per share. No (2001: Nil) consideration was received in respect of the share options granted during the year.

**19 SHARE CAPITAL** (*cont'd*)(i) Share options (*cont'd*)

(ii) Share options outstanding at 31st December 2002 and 2001 have the following terms:

Expiry date	Exercise price HK\$	Number of options		Vested percentage	
		2002	2001	2002	2001
Directors					
6th June 2012	0.158	49,000,000	—	0%	—
Other employees					
6th June 2012	0.158	11,000,000	—	0%	—
		<u>60,000,000</u>	<u>—</u>		

No share options were exercised or cancelled during the year (2001: Nil).

**20 RESERVES****Group**

	2002 HK\$	2001 HK\$
Share premium	1,796,747	1,796,747
Contributed surplus	14,607,973	14,607,973
Revaluation reserve	3,690,347	3,690,347
Exchange reserve	—	—
Accumulated losses	<u>(20,454,301)</u>	<u>(17,182,566)</u>
	<u>(359,234)</u>	<u>2,912,501</u>

## Notes to the Accounts

### 20 RESERVES (cont'd)

#### Company

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
Acquisition of OLH (note 19(e)(ii))	10,002,035	—	10,002,035
Issue of shares upon Placing and Public Offer (note 19(f))	18,000,000	—	18,000,000
Share issue expenses	(7,595,288)	—	(7,595,288)
Issue of shares upon Conversion (note 19(g))	21,333,334	—	21,333,334
Capitalisation issue (note 19(h))	(39,943,334)	—	(39,943,334)
Loss for the period	—	(201,139)	(201,139)
At 31st December 2001	<u>1,796,747</u>	<u>(201,139)</u>	<u>1,595,608</u>
At 1st January 2002	1,796,747	(201,139)	1,595,608
Loss for the year	—	(1,954,842)	(1,954,842)
At 31st December 2002	<u>1,796,747</u>	<u>(2,155,981)</u>	<u>(359,234)</u>

The Company has no distributable reserves at 31st December 2002 (2001: HK\$1,595,608).

### 21 LONG-TERM BANK LOAN, SECURED

	2002 HK\$	Group 2001 HK\$
Bank loan wholly repayable within five years	1,933,902	—
Current portion of long-term bank loan	<u>(580,170)</u>	<u>—</u>
	<u>1,353,732</u>	<u>—</u>

**21 LONG-TERM BANK LOAN, SECURED** (cont'd)

At 31st December 2002, the Group's long-term bank loan was repayable as follows:

	<b>2002</b> <b>HK\$</b>	2001 <b>HK\$</b>
Within one year	<b>580,170</b>	—
In the second year	<b>773,561</b>	—
In the third to fifth year	<b>580,171</b>	—
	<b><u>1,933,902</u></b>	<b><u>—</u></b>

At 31st December 2002, the long-term bank loan was secured respectively by a pledge of the Group's land use rights and leasehold properties with an aggregate net book value of HK\$7,472,045 (note 10(d)) and an unlimited corporate guarantee provided by the Company (note 26).

**22 DEFERRED TAXATION**

At 31st December 2002, the potential deferred taxation assets/(liabilities) not recognised in the accounts amount to:

	<b>2002</b> <b>HK\$</b>	<b>Group</b> 2001 <b>HK\$</b>
Tax losses carried forward	<b>103,137</b>	—
Timing differences in respect of depreciation	<b>1,524,127</b>	745,288
Other timing differences	<b>461,350</b>	(180,267)
	<b><u>2,088,614</u></b>	<b><u>565,021</u></b>

At 31st December 2002, the Company had no material unrecognised deferred taxation (2001: Nil).

**23 BANKING FACILITIES**

At 31st December 2002, the Group had the following banking facilities:

- (a) long-term bank loan of US\$250,000 (2001: Nil) and short-term bank loans of US\$400,000 (2001: RMB2,000,000 and HK\$20,000,000) secured by a pledge of the Group's land use rights and leasehold properties and an unlimited corporate guarantee provided by the Company (notes 10(d) and 26);
- (b) trade finance facility of HK\$4,000,000 (2001: HK\$4,000,000) secured by an unlimited corporate guarantee provided by the Company (note 26).

At 31st December 2002, of the above banking facilities, long-term bank loan of USD250,000 (2001: Nil), short-term bank loans of US\$400,000 (2001: RMB2,000,000 and HK\$11,705,411), and trade finance facility of HK\$3,350,000 (2001: HK\$2,200,000) were utilised respectively.

## Notes to the Accounts

### 24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating (loss)/profit to cash (absorbed by)/generated from operations

	2002 HK\$	2001 HK\$
Operating (loss)/profit	(2,280,509)	2,235,008
Interest income	(20,594)	(169,656)
Depreciation	4,653,116	2,954,513
Fixed assets written off	6,407	—
Gain on sale of a subsidiary	—	(82,779)
Operating profit before working capital changes	2,358,420	4,937,086
Decrease/(increase) in inventories	2,186,953	(3,655,390)
(Increase)/decrease in trade receivables	(3,534,137)	3,576,210
Increase in deposits, prepayments and other receivables	(1,233,736)	(202,645)
Decrease in trade payables	(191,593)	(5,312,088)
(Decrease)/increase in accrued charges and other payables	(954,975)	1,718,985
Net change in the amounts due from/to a related company	—	(36,714)
Exchange differences	—	(51,128)
Cash (absorbed by)/generated from operations	<u>(1,369,068)</u>	<u>974,316</u>

#### (b) Sale of a subsidiary

	2002 HK\$	2001 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	<u>—</u>	<u>10,000</u>
Analysis of net cash outflow from sale of a subsidiary		
Cash consideration	—	10,000
Bank balances and cash of disposed subsidiary	—	(17,010)
	<u>—</u>	<u>(7,010)</u>

## 24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

## (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\$	Bank loans HK\$
At 1st January 2001	12,000,000	—	19,135,158	—	5,000,000	1,869,159
Issue of shares (notes 19(a) and (b)(ii))	16	—	—	—	—	—
Repurchase of shares (note 19(b)(iii))	(8)	—	—	—	—	—
Capitalisation of amounts due to shareholders (note 19(c))	3,000,000	—	(3,000,000)	—	—	—
Contribution from a shareholder (note 19(d))	10,000,000	—	—	—	—	—
Sale of a subsidiary (note b)	—	—	(37,481)	—	—	—
Repayment of bank loans	—	—	—	—	—	(1,869,159)
Bank loans raised	—	—	—	—	—	15,774,570
Repayments to shareholders	—	—	(16,097,677)	—	—	—
Issue of convertible notes	—	—	—	32,000,000	(5,000,000)	—
Contributed surplus arising from the group reorganisation (note 19(e)(ii))	(24,610,008)	24,610,008	—	—	—	—
Issue of shares upon Placing and Public Offer (note 19(f))	9,000,000	18,000,000	—	—	—	—
Share issue expenses	—	(7,595,288)	—	—	—	—
Issue of shares upon Conversion (note 19(g))	10,666,666	21,333,334	—	(32,000,000)	—	—
Capitalisation Issue (note 19(h))	39,943,334	(39,943,334)	—	—	—	—
At 31st December 2001	<u>60,000,000</u>	<u>16,404,720</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,774,570</u>
At 1st January 2002	60,000,000	16,404,720	—	—	—	15,774,570
Repayment of bank loans	—	—	—	—	—	(15,774,570)
Bank loans raised	—	—	—	—	—	8,378,145
At 31st December 2002	<u>60,000,000</u>	<u>16,404,720</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,378,145</u>

## Notes to the Accounts

### 25 COMMITMENTS

#### (a) Capital commitments

At 31st December 2002, the Group had capital commitments of HK\$7,823,913 (2001: HK\$2,753,028) contracted but not provided for in respect of the purchases and construction of fixed assets.

At 31st December 2002, the Company had no capital commitments (2001: Nil).

#### (b) Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Other fixed assets	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Less than one year	160,512	53,900	12,600	12,600
More than one year and less than five years	80,256	—	14,700	27,300
	<u>240,768</u>	<u>53,900</u>	<u>27,300</u>	<u>39,900</u>

At 31st December 2002, the Company had no commitments under operating leases (2001: Nil).

### 26 CONTINGENT LIABILITIES

At 31st December 2002, the Group had no material contingent liabilities (2001: Nil).

The Company provided an unlimited corporate guarantee for banking facilities of subsidiaries aggregating to HK\$9,028,145 (2001: HK\$24,000,000), of which HK\$8,378,145 (2001: HK\$13,905,411) was utilised at 31st December 2002 (note 23).



## 27 RELATED PARTY TRANSACTIONS

The following significant related party transactions have been undertaken by the Group during the year:

	2002 HK\$	2001 HK\$
Continuing transactions:		
Purchase of raw materials from OMAX Technologies, Inc. <i>(note(a))</i>	605,043	—
Purchase of plant and machinery for optoelectronic products from OMAX Technologies, Inc. <i>(note (a))</i>	221,721	—
Sales of synthetic sapphire watch crystals to Li An Trading Company Limited <i>(note (b))</i>	—	125,074
Transactions discontinued upon listing of the Company's shares on the GEM:		
Interest on discounting cheques to the spouse of a beneficial shareholder <i>(note (c))</i>	—	11,534

- (a) Purchase of raw materials and plant and machinery from OMAX Technologies, Inc., a shareholder of the Company, were conducted at prices and terms mutually agreed between both parties.
- (b) Sales of synthetic sapphire watch crystals to Li An Trading Company Limited, a company owned and/or controlled by Mr. Liao Lien Shen, Mr. Liao Ko Ping, Mr. Liao Chin Te and their family members, were conducted at prices and terms mutually agreed between both parties.
- (c) During the year ended 31st December 2001, cheques received by the Group from customers totalled HK\$488,495 were discounted to Ms. Lin Gin Mei, the spouse of Mr. Chang Wu Hsiung, a beneficial shareholder of the Company. Interest was charged based on the face value of the cheques at an average daily rate of 0.033%, which was equivalent to approximately 12.80% per annum.

## 28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd April 2003.

## Four-Year Financial Summary

	2002 HK\$	2001 HK\$	2000 HK\$	1999 HK\$
Results				
Turnover	<u>44,165,820</u>	<u>45,393,083</u>	<u>49,104,906</u>	<u>26,687,576</u>
(Loss)/profit for the year	<u>(3,271,735)</u>	<u>1,398,228</u>	<u>1,364,991</u>	<u>(2,397,103)</u>
Total assets	<u>82,436,776</u>	<u>91,371,987</u>	<u>34,465,383</u>	<u>29,280,894</u>
Total liabilities	<u>22,796,010</u>	<u>28,459,486</u>	<u>40,995,049</u>	<u>37,111,252</u>
Net assets/(liabilities)	<u>59,640,766</u>	<u>62,912,501</u>	<u>(6,529,666)</u>	<u>(7,830,358)</u>