



FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東光集團有限公司*

Incorporated in the Cayman Islands with limited liability

Annual Report 2003

*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

| | |
|--|---|
| 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 |

Corporate Information

| | |
|------------------|--|
| 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 | Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> |
| | CWCC <i>Certified Public Accountants</i> |
| Stock code | 8150 |

Chairman's Statement

Year 2003 was another challenging year for the Group. The Group was recovering from the global economic downturn, the aftermath of September 11 terrorist attacks in the United States, the Afghanistan war and the sales in the first quarter of 2003 was encouraging. However, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in March 2003 and the war on Iraq during the year contributed to hurt the Group's financial results for the year ended 31st December 2003.

Sales of sapphire watch crystal to the Taiwan market dropped drastically the sale to Hong Kong market reduced mildly. However, the Group was able to increase its sales of sapphire watch crystal to prestigious Swiss wristwatches manufacturers in 2003 to partially offset this. Overall sales of sapphire watch crystal in 2003 reduced by 18.5% to HK\$31.7 million.

During 2003, the Group was able to start volume production of ferrules for the telecommunications industry. However, the current market price of ferrules is low and we had substantially written down the fixed assets values of the optic electronic division on a prudent basis. We do not expect any further asset impairment provision required. In addition, as one of the leading precision polishing service providers, the Group will take full advantage of its technical know-how and broaden its product range to supply sleeves and other ceramic components.

The Group started to distribute prestigious Swiss wristwatches in Taiwan in 2002. This watch distribution division recorded sales of HK\$11.4 million in 2003, representing an increase of 116% over 2002. The Group will further expand its watch 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 company with an unparalleled committed team and I look forward to a productive year in 2004.

Liao Lien Shen

Chairman

Hong Kong, 16th September 2004

FINANCIAL REVIEW

Total turnover of the Group for the year ended 31st December 2003 amounted to HK\$47,119,920, representing a 6.7% increase from that of HK\$44,165,820 generated in the year ended 31st December 2002.

Sapphire watch crystals division

During 2003, the Group was able to attract more order from Swiss customers. Turnover generated from Swiss customers increased to HK\$23,225,326, representing a 15.5% increase from that of HK\$20,109,033 generated in the year ended 31st December 2002. However, sales to customers in Taiwan reduced drastically to HK\$2,459,858, representing a 76.9% decrease from that of HK\$10,668,165 in the year ended 31st December 2002. Turnover from Hong Kong customers also reduced to HK\$6,037,544 in the year ended 31st December 2003, representing 25.5% decrease from that of HK\$8,107,322 generated in the year ended 31st December 2002.

The turnover of the sapphire watch crystals for the year ended 31st December 2003 decreased by HK\$7,161,792, cost of sales of the sapphire watch crystals during the same period decreased to HK\$24,260,563 from that of HK\$30,649,705 in the year ended 31st December 2002. Gross profit margin for the division increased to approximately 23.5% in the year ended 31st December 2003 from 21.2% in the year ended 31st December 2002. The increase in gross profit margin was primarily attributable to the increase in contribution from sales of higher valued added synthetic sapphire watch crystals to Swiss customers.

Watch distribution division

Sales generated from watch distribution division in 2003 increased by HK\$6,154,013 to HK\$11,435,313, representing 116.5% increase from that of HK\$5,281,300 for the year ended 31st December 2002. Cost of sales for the corresponding periods were HK\$6,820,015 and HK\$3,212,695 respectively. Gross profit margin for the division was 40.4% in 2003, slightly improved than that of 39.2% in 2002.

Optoelectronics products division

Sales of ferrules was HK\$3,961,879 for the year ended 31st December 2003. No sale of ferrule was recorded in 2002. Cost of sales was HK\$7,499,081 for the year ended 31st December 2003.

Other revenue

Other revenue for the year ended 31st December 2003 amounted to HK\$3,816, representing 81.5% decrease from that of HK\$20,594 generated in the year ended 31st December 2002.

Other revenue represented the interest income generated during the year on bank deposits from temporary unused cash. The decrease in interest income reflected the decrease in interest rate and lower unused cash in 2003.

Distribution costs, administrative and other operating expenses

Distribution costs for the year ended 31st December 2003 totalled HK\$1,092,766. This represents an increase of HK\$32,461 from that recorded in the year ended 31st December 2002. The slight increase in distribution costs was a result of consolidated shipment to European customers while sapphire watch crystals sales to customers in Europe in 2003 increased.

Management Discussion and Analysis

Total administrative expenses were approximately HK\$8,422,172 for the year ended 31st December 2003 and HK\$8,375,854 for the year ended 31st December 2002. However, administrative, advertising and promotion expenses for the watch distribution division was HK\$1,306,861 (2002: HK\$870,676) after deducting contribution from Swiss wristwatch principals. Administrative expenses attributable to the optoelectronic products division was HK\$772,976 (2002: HK\$1,453,035). After excluding the administrative expenses of these two divisions, the general administrative expenses were approximately HK\$6,342,335 (2002: HK\$6,052,143), representing an increase of HK\$290,192.

Other operating expenses was approximately HK\$1,463,822 (2002: HK\$3,168,364), representing a decrease of HK\$1,704,542. This was mainly due to the full operation of optoelectronic products division in 2003 and other operating expenses incurred for the optoelectronic products division was reduced to HK\$7,868 (2002: HK\$2,058,303). Professional fee was HK\$761,093 for the year ended 31st December 2003, representing a decrease of HK\$325,851 from 2002. Bad debts provision was HK\$798,963 (2002: HK\$155,396), representing an increase of HK\$643,567.

Financial resources and liquidity

The Group's shareholders funds was reduced to HK\$21,395,989 as at 31st December 2003 (2002: HK\$61,027,275) due to loss incurred in 2003. Current assets amounted to HK\$23,509,656 as at 31st December 2003 (2002: HK\$21,761,131), of which HK\$1,790,531 (2002: HK\$1,058,253) was cash and bank balances. HK\$2,290,899 (2002: nil) was placed in time deposit accounts to secure certain bank borrowings of HK\$3,790,000 as at 31st December 2003 (2002: nil). Bank borrowings of HK\$4,446,664 (2002: HK\$5,028,145) were secured by a mortgage on the Groups property interests in the PRC with net book value amounted to HK\$8,844,820 (2002: HK\$7,472,045).

As at 31st December 2003, the Group total borrowings amounted to approximately HK\$10,496,752 (2002: HK\$8,378,145), of which approximately HK\$4,446,664 was denominated in US dollar and the remaining balances were denominated in Hong Kong dollars. As at 31st December 2003, HK\$8,743,047 (2002: HK\$7,024,413) were short-term borrowings repayable within one year.

The Groups gearing ratio, calculated based on total borrowings and shareholders equity, as at 31st December 2003 was 49% (2002: 14%).

Foreign currency risk

During the year under review, around HK\$23.2 million of the Groups sales are denominated in Swiss Francs while around HK\$21.2 million of the Group's purchases are denominated in Euro/Swiss Francs. There has not been significant changes in exchange rate between Swiss Francs and Euro. This kind of natural hedge reduced the Groups 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 Groups foreign currency risk.

Contingent liabilities

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

Employees

As at 31st December 2003, the Group had 321 employees. Employees were remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits included

Management Discussion and Analysis

free accommodation at the Groups staff quarters in PRC and performance bonus. Total staff costs including directors' remuneration for 2003 was HK\$5,637,626 (2002: HK\$6,783,483).

Convertible bonds

During both years ended 31st December 2003 and 31st December 2002, the Company did not issue any convertible note.

Major acquisitions

During the year, the Group acquired additions to property, plant and equipment and incurred additions to assets under construction totalling HK\$4,209,512 (2002: HK\$5,447,613), for the expansion of the watch crystals production facilities and the set up of the optoelectronic production facilities.

Capital Structure

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

Material acquisitions and disposal of subsidiaries and affiliated companies

The Group had no acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31st December 2003.

Segmental information

Details have been set out in Note 5 to the financial statement and further elaborated under "Financial Review" of this section.

BUSINESS REVIEW

The turnover of the sapphire watch crystals for the year ended 31st December 2003 decreased by HK\$7,161,792, cost of sales of the sapphire watch crystals during the same period decreased to HK\$24,260,563 from that of HK\$30,649,705 in the year ended 31st December 2002. Gross profit margin for the division increased to approximately 23.5% in the year ended 31st December 2003 from 21.2% in the year ended 31st December 2002. The increase in gross profit margin was primarily attributable to the increase in contribution from sales of higher valued added synthetic sapphire watch crystals to Swiss customers.

The watch distribution division generated sales of HK\$11,435,313 in 2003 (2002: HK\$5,281,300) in 2002 and the gross profit margin was 40.4% (2002: 39.2%).

During 2003, the ferrules division generated sales of HK\$3,961,879 (2002: nil).

PROSPECTS

The Board expects that the demand for synthetic sapphire watch crystals will remain stable for 2004.

After making assets impairment provision for the ferrules division in 2003, the Board expects the ferrules division would be able to generate positive cash flow for the Group.

The Group will continue to implement plans, as set out in the Prospectus, during the coming year 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.

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 2003.

| Business objectives as set out in the prospectus | Actual business progress as at 31st December 2003 |
|--|--|
| <i>Market expansion and penetration</i> | |
| Continue the market expansion activities from the last period | 2 PRC based customers were secured |
| Expand sales from the increasing volume of LCD projector windows and sapphire wafers offered to existing and new customers | No further work on sapphire wafers and LCD projector windows until the market become more profitable for new entrant |
| Expand sales from the increasing volume of synthetic sapphire jewellery products | No sales made as the Group wishes to concentrate its effect on its core business — synthetic sapphire watch crystals |
| <i>Production capacity and efficiency enhancement</i> | |
| Complete the construction of a new building at Fuqing Plant for the manufacturing of optoelectronic products | New building completed |
| Increase production of LCD projector windows and sapphire wafers from 1,000 pieces to 2,000 pieces each | No production made due to market price of LCD projector windows and sapphire wafers does not offer profit for new entrant. |
| Increase the production of synthetic sapphire jewellery products from 40,000 pieces to 50,000 pieces per month | No sales made as the Group wishes to concentrate its effect on its core business — synthetic sapphire watch crystals |
| <i>Research and development improvement</i> | |
| Continue the research and development activities from the last period | Ongoing, no major change from last year |
| Research on improving the production efficiency of synthetic sapphire jewellery, LCD projector windows and sapphire wafers | No further work until market is attractive to the Group |
| Research on the deployment of the Group's polishing technology on the development of other optoelectronic products | Working on applying knowledge of ceramic material and polishing technology to produce ceramic watch parts |
| <i>Product development</i> | |
| Continue to introduce new models of watch crystal products | No special models but we are able to produce large size synthetic watch crystals to meet customer's need |

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 2003 is as follows:

| | Budgeted amount as extracted from the Prospectus HK\$ (in million) | Proceeds already applied up to 31st December 2002 HK\$ (in million) | Proceeds already applied during 2003 HK\$ (in million) | Proceeds already applied up to 31st December 2003 HK\$ (in million) |
|--|--|---|--|---|
| Expansion of the Groups 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 | 1.4 | 0.2 | 1.6 |
| | <u>17.4</u> | <u>17.2</u> | <u>0.2</u> | <u>17.4</u> |
| Working capital | <u>1.6</u> | | | |
| Net proceeds from new issues | <u>19.0</u> | | | |

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31st December 2003.

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 14 to the accounts.

An analysis of the Group's for the year by principal activities and geographical segments is set out in note 5 to the accounts.

RESULTS AND APPROPRIATIONS

Details of the audited results of the Group for the year ended 31st December 2003 are set out in the consolidated income statement on page 17.

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 20 and note 23 to the financial statement respectively.

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the accounts.

DISTRIBUTABLE RESERVES

As at 31st December 2003 the Company's distributable reserves balance was nil (2002: nil).

SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December 2003 are set out in note 14 to the financial statement.

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 five financial years is set out on page 48.

DIRECTORS

Executive Directors

Mr. LIAO Lien Shen, aged 66, 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 Groups overall business planning and policy making.

Mr. LIAO Ko Ping, aged 41, is the managing Director and one of the founders of the Group. He is responsible for formulating and monitoring the Groups overall strategic plan and development. He is also in charge of the marketing of the Groups 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 38, 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 47, is an independent financial consultant in Hong Kong. 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 44, 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 here, 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 Groups 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.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions, which also constitute related party transactions and are set out in note 30 to the accounts.

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 Company's prospectus dated 27th July 2001. Since the adoption of the Share Option Scheme, 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 2003 | Options granted during the year | Options held at 31st December 2003 | Exercise price HK\$ | Grant Date | Exercisable from | Exercisable until |
|-------------------------------|----------------------------------|---------------------------------|------------------------------------|---------------------|-------------|------------------|-------------------|
| Liao Ko Ping | 30,000,000 | — | 30,000,000 | 0.158 | 6 June 2002 | 6 June 2005 | 6 June 2012 |
| Liao Lien Shen | 19,000,000 | — | 19,000,000 | 0.158 | 6 June 2002 | 6 June 2005 | 6 June 2012 |
| Continuous contract employees | 11,000,000 | — | 11,000,000 | 0.158 | 6 June 2002 | 6 June 2005 | 6 June 2012 |

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.4 of the GEM Listing Rules were as follows:

Long positions in shares

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

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, as at 31st December 2003, none of the directors and chief executive of the Company has any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.4 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SECURITIES

As at 31st December, 2003, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

| Name of Shareholder | Capacity | Number of shares | Percentage of issued share |
|-----------------------------|-------------------------------------|---------------------|----------------------------|
| OMAX Technologies Inc. | Beneficial owner | 74,776,666 (Note 1) | 12.46% |
| TIS Securities (HK) Limited | Beneficial owner | 13,760,000 | 2.29% |
| | Interests in controlled corporation | 19,400,000 (Note 2) | 3.23% |

Notes:

- By virtue of the provisions of the SFO, 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 representing approximately 0.45% of the entire issued share capital 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.
- Such 19,400,000 shares were held by Taiwan International Capital (HK) Limited, which is a wholly owned subsidiary of TIS Securities (HK) Limited.

Save as disclosed above, as at 31st December 2003, the directors were not aware of any other person (other than the directors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

MANAGEMENT SHAREHOLDERS' INTERESTS IN SECURITIES

Other than the interests disclosed above in respect of the substantial shareholders, the directors and chief executive of the Company and their associates (as defined in the GEM Listing Rules), as at 31st December 2003, 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.

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 ended 31st December 2003.

MAJOR CUSTOMERS AND SUPPLIERS

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

| | |
|--------------------------|-----|
| — the largest customer | 25% |
| — five largest customers | 69% |

Report of the Directors

The percentage of purchases for the year attributable to the Groups major suppliers are as follows:

- the largest customer 33%
- five largest customers 71%

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 2003.

SENIOR MANAGEMENT

Mr. WONG Chi Wing CGA, ACMA, aged 44, 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year ended 31st December 2003.

COMPETING INTERESTS

During the year ended 31st December 2003, none of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or might compete with the business of the Group.

INTERESTS OF SPONSORS

Pursuant to the sponsors' agreement entered into between the Company, CSC Asia Limited ("CSC Asia") and TIS Securities (HK) Limited ("TIS Securities"), CSC Asia and TIS Securities were entitled to receive a fee for acting as the Company's continuing sponsors for the period from 10th August 2001 to 31st December 2003. With reference to the Company's announcement dated 12th May 2003, the Company and TIS Securities have mutually agreed to terminate the engagement of TIS Securities as continuing sponsor with effect from 12th May 2003. The other continuing sponsor of the Company, CSC Asia, became the sole continuing sponsor of the company with effect from 12th May 2003. Save as disclosed above, as at 31st December 2003, 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.

AUDIT COMMITTEE

As required by Rule 5.28 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 the review and supervision of the Company's financial reporting process and internal control systems. 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 16th September 2004 to discuss matters in relation to the annual report for the year ended 31st December 2003.

AUDITORS

The accounts have been jointly audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and Chan, Wong, Chung & Co., Certified Public Accountants, Hong Kong who are now practicing under the name of CWCC, Certified Public Accountants, Hong Kong and accordingly they have signed the auditors' report in their new name 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, 16th September 2004

Auditors' Report

TO THE MEMBERS OF FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 17 to 47 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2003 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

CWCC
Certified Public Accountants

Hong Kong, 16th September 2004

Consolidated Income Statement

For the year ended 31st December 2003

| | <i>Notes</i> | 2003 HK\$ | 2002 HK\$ <i>(Restated)</i> |
|---|--------------|-----------------------------|-----------------------------------|
| Turnover | 5 | 47,119,920 | 44,165,820 |
| Cost of sales | | <u>(38,579,659)</u> | <u>(33,862,400)</u> |
| Gross profit | | 8,540,261 | 10,303,420 |
| Interest income | | 3,816 | 20,594 |
| Distribution costs | | (1,092,766) | (1,060,305) |
| Administrative expenses | | (8,422,172) | (8,375,854) |
| Other operating expenses | | (1,463,822) | (3,168,364) |
| Impairment loss recognised in respect of property, plant and equipment | | (32,699,025) | — |
| Impairment loss recognised in respect of assets under construction | | <u>(4,100,944)</u> | <u>—</u> |
| Loss from operations | 6 | (39,234,652) | (2,280,509) |
| Finance costs | 7 | <u>(756,258)</u> | <u>(443,056)</u> |
| Loss before taxation | | (39,990,910) | (2,723,565) |
| Income tax credit (charge) | 8 | <u>359,624</u> | <u>(664,430)</u> |
| Net loss for the year | | <u><u>(39,631,286)</u></u> | <u><u>(3,387,995)</u></u> |
| Loss per share | | | |
| Basic and diluted | 11 | <u><u>(HK6.61 cent)</u></u> | <u><u>(HK0.56 cent)</u></u> |

Consolidated Balance Sheet

As at 31st December 2003

| | Notes | 2003 HK\$ | 2002 HK\$ (Restated) |
|--|-------|-------------------|----------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 12 | 21,832,859 | 57,609,660 |
| Assets under construction | 13 | 278,181 | 3,065,985 |
| Deferred tax assets | 24 | 1,670,006 | 1,386,509 |
| | | <u>23,781,046</u> | <u>62,062,154</u> |
| Current assets | | | |
| Inventories | 15 | 7,701,651 | 4,922,558 |
| Trade receivables | 16 | 10,081,058 | 13,587,993 |
| Deposits, prepayments and other receivables | | 1,247,226 | 1,845,395 |
| Tax recoverable | | 398,291 | 346,932 |
| Pledged bank deposits | 17 | 2,290,899 | — |
| Bank balances and cash | 18 | 1,790,531 | 1,058,253 |
| | | <u>23,509,656</u> | <u>21,761,131</u> |
| Current liabilities | | | |
| Trade payables and bills payable | 19 | 9,537,229 | 5,483,254 |
| Other payables, deposits received and accruals | | 4,493,043 | 7,411,232 |
| Taxation | | 1,367,689 | 1,523,379 |
| Obligations under finance leases | | | |
| — repayable within one year | 20 | 334,832 | — |
| Borrowings — repayable within one year | 21 | 8,408,215 | 7,024,413 |
| | | <u>24,141,008</u> | <u>21,442,278</u> |
| Net current (liabilities) assets | | <u>(631,352)</u> | <u>318,853</u> |
| | | <u>23,149,694</u> | <u>62,381,007</u> |
| Capital and reserves | | | |
| Share capital | 22 | 60,000,000 | 60,000,000 |
| Reserves | | (38,604,011) | 1,027,275 |
| | | <u>21,395,989</u> | <u>61,027,275</u> |
| Non-current liabilities | | | |
| Obligations under finance leases | | | |
| — repayable over one year | 20 | 569,553 | — |
| Borrowings — repayable over one year | 21 | 1,184,152 | 1,353,732 |
| | | <u>1,753,705</u> | <u>1,353,732</u> |
| | | <u>23,149,694</u> | <u>62,381,007</u> |

The financial statements on pages 17 to 47 were approved by the Board of Directors on 16th September and are signed on its behalf by:

Liao Lien Shen
Director

Liao Ko Ping
Director

Balance Sheet

As at 31st December 2003

| | Notes | 2003 HK\$ | 2002 HK\$ |
|--|-------|---------------------|-------------------|
| Non-current assets | | | |
| Interests in subsidiaries | 14 | <u>21,616,284</u> | <u>60,056,413</u> |
| Current assets | | | |
| Tax recoverable | | 8,995 | — |
| Bank balances and cash | | <u>10,413</u> | <u>10,612</u> |
| | | <u>19,408</u> | <u>10,612</u> |
| Current liabilities | | | |
| Other payables, deposits received and accruals | | 253,190 | 391,259 |
| Taxation | | — | 35,000 |
| | | <u>253,190</u> | <u>426,259</u> |
| Net current liabilities | | <u>(233,782)</u> | <u>(415,647)</u> |
| | | <u>21,382,502</u> | <u>59,640,766</u> |
| Capital and reserves | | | |
| Share capital | 22 | 60,000,000 | 60,000,000 |
| Reserves | 23 | <u>(38,617,498)</u> | <u>(359,234)</u> |
| | | <u>21,382,502</u> | <u>59,640,766</u> |

Liao Lien Shen
Director

Liao Ko Ping
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

| | Share capital HK\$ | Share premium HK\$ | Contributed surplus HK\$ | Revaluation reserve HK\$ | Accumulated losses HK\$ | Total HK\$ |
|---|--------------------------|--------------------------|--------------------------------|--------------------------------|-------------------------------|-------------------|
| At 1st January 2002 | | | | | | |
| — as originally stated | 60,000,000 | 1,796,747 | 14,607,973 | 3,690,347 | (17,182,566) | 62,912,501 |
| — adjustment on adoption of SSAP 12 (Revised) (Note 3) | — | — | — | (553,552) | 2,056,321 | 1,502,769 |
| — as restated | 60,000,000 | 1,796,747 | 14,607,973 | 3,136,795 | (15,126,245) | 64,415,270 |
| Net loss for the year | — | — | — | — | (3,387,995) | (3,387,995) |
| At 31st December 2002 | 60,000,000 | 1,796,747 | 14,607,973 | 3,136,795 | (18,514,240) | 61,027,275 |
| Net loss for the year | — | — | — | — | (39,631,286) | (39,631,286) |
| At 31st December 2003 | <u>60,000,000</u> | <u>1,796,747</u> | <u>14,607,973</u> | <u>3,136,795</u> | <u>(58,145,526)</u> | <u>21,395,989</u> |

The contribution surplus of the Group is arising from the Group reorganisation in 2001.

Consolidated Cash Flow Statement

For the year ended 31st December 2003

| | 2003 HK\$ | 2002 HK\$ |
|---|-------------------------|-------------------------|
| OPERATING ACTIVITIES | | |
| Loss from operations | (39,234,652) | (2,280,509) |
| Adjustments for: | | |
| Depreciation and amortisation | 5,974,148 | 4,653,116 |
| Bad debts written off | 798,963 | 155,396 |
| Allowance for doubtful debts | — | 79,000 |
| Impairment loss recognised in respect of property, plant and equipment | 32,699,025 | — |
| Impairment loss recognised in respect of assets under construction | 4,100,944 | — |
| (Gain) loss on disposals of property, plant and equipment | (28,037) | 6,407 |
| Interest income | (3,816) | (20,594) |
| Operating cash flows before movements in working capital | <u>4,306,575</u> | <u>2,592,816</u> |
| (Increase) decrease in inventories | (2,779,093) | 2,186,953 |
| Decrease (increase) in trade receivables | 2,707,972 | (3,768,533) |
| Decrease (increase) in deposits, prepayments and other receivables | 598,169 | (1,233,736) |
| Increase (decrease) in trade payables and bills payable | 4,053,975 | (191,593) |
| Decrease in other payables, deposits received and accruals | <u>(2,918,189)</u> | <u>(954,975)</u> |
| Cash generated from (used in) operations | 5,969,409 | (1,369,068) |
| Interest paid | (756,258) | (443,056) |
| Hong Kong Profits Tax paid | (83,056) | (357,171) |
| Overseas taxation paid | <u>(47,866)</u> | <u>(49,041)</u> |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 5,082,229 | (2,218,336) |
| INVESTING ACTIVITIES | | |
| Interest income | 3,816 | 20,594 |
| Purchases of property, plant and equipment | (1,505,386) | (2,712,570) |
| Additions of assets under construction | (1,659,778) | (346,638) |
| Proceeds from disposals of property, plant and equipment | 28,037 | — |
| (Increase) decrease in pledged bank deposits | <u>(2,290,899)</u> | <u>10,620,000</u> |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (5,424,210) | 7,581,386 |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 4,367,673 | 8,378,145 |
| Repayments of bank borrowings | (3,153,451) | (15,774,570) |
| Repayments of obligations under finance leases | <u>(139,963)</u> | <u>—</u> |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 1,074,259 | (7,396,425) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 732,278 | (2,033,375) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,058,253 | 3,091,628 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR, Represented by bank balances and cash | <u>1,790,531</u> | <u>1,058,253</u> |

Notes to the Financial Statement

1. GENERAL

The Company is incorporated in Cayman Islands with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities and other details of its subsidiaries are set out in note 14.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK\$631,352 at 31st December 2003. Since the year end, the directors have been taking active steps to improve the liquidity position of the Group. As explained in note 31, net proceeds of approximately HK\$7.8 million were received from the issue of a convertible note to an independent third party. The directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard 12 (Revised) “Income Taxes” (“SSAP 12 (Revised)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of accumulated losses at 1st January 2002 has been decreased by HK\$2,056,321, representing the cumulative effect of the change in policy on the results for periods prior to 1st January 2002. The balance of the Group’s revaluation reserve at 1st January 2002 has been decreased by HK\$553,552, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group’s land use rights and leasehold properties at that date. The change has resulted in a decrease in the loss of HK\$283,497 for the year ended 31st December 2003 (2002: an increase in the loss of HK\$116,260).

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Revenue recognition

Sale of goods are recognised when the goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Land use rights and leasehold properties are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land use rights and leasehold properties is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Property, plant and equipment other than land use rights and leasehold properties are stated at cost less depreciation and accumulated impairment losses.

Notes to the Financial Statement

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment (cont'd)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|-----------------------------------|--|
| Land use rights | Over the term of the lease |
| Leasehold properties | Over the shorter of the term of the lease, or 20 years |
| Leasehold improvements | 25% |
| Plant and machinery | 10% — 25% |
| Furniture, fixtures and equipment | 25% |
| Motor vehicles | 25% |

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 property, plant and equipment for use.

Research and development expenditure

Research and development costs are recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

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

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Impairment *(cont'd)*

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

Lease assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transaction or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Notes to the Financial Statement

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Retirement benefit costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due.

5. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less sale returns, discounts and business tax during the year.

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 |
| Watch distribution | Taiwan |

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

Notes to the Financial Statement

5. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS *(cont'd)*

Primary reporting format — business segment

Year ended 31st December 2003

| | Synthetic sapphire watch crystals HK\$ | Optoelectronic products HK\$ | Watch distribution HK\$ | Consolidated HK\$ |
|--|---|------------------------------------|-------------------------------|----------------------|
| Turnover | <u>31,722,728</u> | <u>3,961,879</u> | <u>11,435,313</u> | <u>47,119,920</u> |
| Segment results | <u>3,633,446</u> | <u>(41,821,659)</u> | <u>2,644,316</u> | (35,543,897) |
| Interest income | | | | 3,816 |
| Unallocated expenses | | | | <u>(3,694,571)</u> |
| Loss from operations | | | | (39,234,652) |
| Finance costs | | | | <u>(756,258)</u> |
| Loss before taxation | | | | (39,990,910) |
| Income tax credit | | | | <u>359,624</u> |
| Net loss for the year | | | | <u>(39,631,286)</u> |
| Segment assets | 20,446,839 | 5,259,346 | 6,372,904 | 32,079,089 |
| Unallocated assets | | | | <u>15,211,613</u> |
| Total assets | | | | <u>47,290,702</u> |
| Segment liabilities | 9,119,274 | 4,187,152 | — | 13,306,426 |
| Unallocated liabilities | | | | <u>12,588,287</u> |
| Total liabilities | | | | <u>25,894,713</u> |
| Capital expenditure | 491,565 | 1,571,778 | — | |
| Depreciation | 1,868,425 | 3,694,237 | — | |
| Impairment loss in respect of property, plant and equipment | — | 32,699,025 | — | |
| Impairment loss in respect of assets under construction | — | 4,100,944 | — | |
| Other non-cash expenses | <u>1,721,701</u> | <u>1,048,054</u> | <u>—</u> | |

Segments assets did not include land use rights and leasehold properties and assets under construction of HK\$8,844,920 and HK\$216,966 (2002: HK\$8,423,377 and HK\$346,638) respectively as the directors consider that there is no meaningful basis for allocation of such balances between synthetic sapphire watch crystals, optoelectronic products and watch distribution.

Notes to the Financial Statement

5. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS *(cont'd)*

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

Year ended 31st December 2002

| | Synthetic sapphire watch crystals HK\$ | Optoelectronic products HK\$ | Watch distribution HK\$ | Consolidated HK\$ <i>(Restated)</i> |
|-------------------------|---|------------------------------------|-------------------------------|---|
| Turnover | <u>38,884,520</u> | <u>—</u> | <u>5,281,300</u> | <u>44,165,820</u> |
| Segment results | <u>4,325,444</u> | <u>(2,530,657)</u> | <u>1,197,929</u> | 2,992,716 |
| Interest income | | | | 20,594 |
| Unallocated expenses | | | | <u>(5,293,819)</u> |
| Loss from operation | | | | (2,280,509) |
| Finance costs | | | | <u>(443,056)</u> |
| Loss before taxation | | | | (2,723,565) |
| Income tax charge | | | | <u>(664,430)</u> |
| Net loss for the year | | | | <u>(3,387,995)</u> |
| Segment assets | 26,170,739 | 39,158,103 | 5,268,503 | 70,597,345 |
| Unallocated assets | | | | <u>13,225,940</u> |
| Total assets | | | | <u>83,823,285</u> |
| Segment liabilities | 7,837,553 | 2,939,538 | 1,095,825 | 11,872,916 |
| Unallocated liabilities | | | | <u>10,923,094</u> |
| Total liabilities | | | | <u>22,796,010</u> |
| Capital expenditure | 1,940,903 | 2,671,101 | — | |
| Depreciation | 2,549,574 | 1,162,441 | — | |
| Other non-cash expenses | <u>1,480,670</u> | <u>—</u> | <u>—</u> | |

Notes to the Financial Statement

5. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS *(cont'd)*

Secondary reporting format — geographical segments

| | Turnover <i>HK\$</i> | Total assets <i>HK\$</i> | Capital expenditure <i>HK\$</i> |
|-------------------------------|-------------------------|--------------------------------|---------------------------------------|
| Year ended 31st December 2003 | | | |
| Europe | 23,225,326 | 801,104 | — |
| Hong Kong | 6,037,544 | 6,126,108 | — |
| Taiwan | 13,895,171 | 6,143,702 | — |
| PRC | 3,961,879 | 32,151,491 | 4,209,512 |
| Total | <u>47,119,920</u> | <u>45,222,405</u> | <u>4,209,512</u> |
| Year ended 31st December 2002 | | | |
| Europe | 20,109,033 | 3,230,764 | — |
| Hong Kong | 8,107,322 | 4,968,154 | 226,908 |
| Taiwan | 15,949,465 | 8,566,193 | — |
| PRC | — | 65,324,733 | 5,567,343 |
| Total | <u>44,165,820</u> | <u>82,089,844</u> | <u>5,794,251</u> |

6. LOSS FROM OPERATIONS

| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> |
|---|---------------------|---------------------|
| Loss from operations has been arrived at after charging (crediting): | | |
| Auditors' remuneration | 400,000 | 455,607 |
| Bad debts written off | 798,963 | 155,396 |
| Cost of inventories sold | 38,172,550 | 32,118,993 |
| Depreciation and amortisation | | |
| — owned assets | 5,929,741 | 4,653,116 |
| — assets under finance leases | 44,407 | — |
| Operating lease rentals | | |
| — land and buildings | 160,512 | 134,677 |
| — other property, plant and equipment | 12,600 | 12,600 |
| Allowance for doubtful debts | — | 79,000 |
| Allowance for slow-moving inventories (included in cost of sales) | 922,738 | 1,246,274 |
| Research and development costs (excluding staff costs) <i>(Note (a))</i> | 302,177 | 509,975 |
| Staff costs including directors' remuneration <i>(Notes (a) and 9)</i> | 5,637,626 | 6,783,483 |
| Pre-operating expenses in respect of optoelectronic products production written off | — | 1,693,107 |
| Write off of inventories (included in cost of sales) | 1,048,054 | — |
| (Gain) loss on disposals of property, plant and equipment | (28,037) | 6,407 |
| Net exchange gain | <u>(445,153)</u> | <u>(391,310)</u> |

Notes to the Financial Statement

6. LOSS FROM OPERATIONS (cont'd)

Note:

- (a) Of the total staff costs, HK\$660,222 (2002: HK\$487,491) was attributed to research and development activities of the Group.

7. FINANCE COSTS

| | 2003 HK\$ | 2002 HK\$ |
|---|----------------|----------------|
| Interest on: | | |
| Bank and other loans wholly repayable within five years | 664,177 | 417,152 |
| Finance leases | 17,444 | — |
| Trade payables | 74,637 | — |
| Incidental borrowing costs | — | 25,904 |
| | <u>756,258</u> | <u>443,056</u> |

8. INCOME TAX CREDIT (CHARGE)

- (a) The amount of taxation credited (charged) to the consolidated income statement represents:

| | 2003 HK\$ | 2002 HK\$ (Restated) |
|----------------------------------|----------------|----------------------------|
| Current tax : | | |
| Hong Kong Profits Tax (Note (i)) | (5,010) | (453,000) |
| Overseas taxation (Note (ii)) | — | (95,170) |
| Overprovision in prior years | 81,137 | — |
| | <u>76,127</u> | <u>(548,170)</u> |
| Deferred tax (Note 24) | <u>283,497</u> | <u>(116,260)</u> |
| | <u>359,624</u> | <u>(664,430)</u> |

Notes:

- (i) Hong Kong Profits Tax has been provided for at the rate of 17.5% (2002: 16%) on the respective estimated assessable profits of the companies within the Group operating in Hong Kong during the year.

During the year, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/04.

Notes to the Financial Statement

8. INCOME TAX CREDIT (CHARGE) (cont'd)

(a) (cont'd)

Notes: (cont'd)

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

For the year ended 31st December 2002, one of these PRC subsidiaries was subject to a preferential income tax rate of 15% on its taxable profit. This subsidiary has been granted full exemption from the enterprise 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. For the year ended 31st December 2003, the subsidiary is subject to a normal income tax rate of 15% without any reduction. Both PRC subsidiaries were in loss-making position for the current year and accordingly did not have any taxable profit.

(b) The tax credit (charge) for the year can be reconciled to the loss per the consolidated income statement as follows:

| | Hong Kong | | | | PRC | | | | Total | | | |
|---|------------------|---------------|--------------------|--------|--------------------|---------------|------------------|--------|--------------------|---------------|------------------|--------|
| | 2003 HK\$ | % | 2002 HK\$ | % | 2003 HK\$ | % | 2002 HK\$ | % | 2003 HK\$ | % | 2002 HK\$ | % |
| Loss (profit) before taxation | <u>4,247,371</u> | | <u>(1,229,286)</u> | | <u>35,743,539</u> | | <u>3,952,851</u> | | <u>39,990,910</u> | | <u>2,723,565</u> | |
| Tax at the domestic income tax rate | 743,291 | 17.5 | (196,685) | (16.0) | 5,361,531 | 15.0 | 592,927 | 15.0 | 6,104,822 | 15.3 | 396,242 | 14.6 |
| Tax effect of expenses not deductible for tax purpose | (834,840) | (19.7) | (290,155) | (23.6) | (646,740) | (1.8) | (706,527) | (17.9) | (1,481,580) | (3.7) | (996,682) | (36.6) |
| Tax effect of income not taxable for tax purpose | 453,915 | 10.7 | 33,840 | 2.7 | — | — | — | — | 453,915 | 1.1 | 33,840 | 1.2 |
| Overprovision in respect of prior year | 81,137 | 1.9 | — | — | — | — | — | — | 81,137 | 0.2 | — | — |
| Tax effect of tax losses/deferred tax assets not recognised | — | — | — | — | (4,798,670) | (13.4) | (183,640) | (4.6) | (4,798,670) | (12.0) | (183,640) | (6.7) |

Notes to the Financial Statement

8. INCOME TAX CREDIT (CHARGE) (cont'd)

(b) (cont'd)

| | Hong Kong | | | | PRC | | | | Total | | | |
|--|----------------|-------------|------------------|---------------|-----------------|--------------|------------------|--------------|----------------|------------|------------------|---------------|
| | 2003 HK\$ | % | 2002 HK\$ | % | 2003 HK\$ | % | 2002 HK\$ | % | 2003 HK\$ | % | 2002 HK\$ | % |
| Income tax on concessionary rate | — | — | — | — | — | — | 85,810 | 2.2 | — | — | 85,810 | 3.1 |
| Tax effect and effective tax rate for the year | <u>443,503</u> | <u>10.4</u> | <u>(453,000)</u> | <u>(36.9)</u> | <u>(83,879)</u> | <u>(0.2)</u> | <u>(211,430)</u> | <u>(5.3)</u> | <u>359,624</u> | <u>0.9</u> | <u>(664,430)</u> | <u>(24.4)</u> |

Details of recognised and unrecognised deferred tax assets and liability are set out in note 24.

9. STAFF COSTS INCLUDING DIRECTOR'S REMUNERATION

| | 2003 HK\$ | 2002 HK\$ |
|------------------------------------|------------------|------------------|
| Wages, salaries and other benefits | 5,449,024 | 6,537,168 |
| Retirement benefit costs | | |
| PRC (Note (a)) | 157,562 | 188,085 |
| Hong Kong (Note (b)) | 31,040 | 58,230 |
| | <u>5,637,626</u> | <u>6,783,483</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 employee's basic salary. The provincial government is responsible for the entire retirement obligations payable to the retired employees. The only obligation of the Group is to pay the ongoing required contributions.

The retirement benefit costs represent the contributions paid and payable to the Provincial Scheme. At 31st December 2003, there were no outstanding contributions payable to the Provincial Scheme (2002: 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 employees' 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 2003, contributions of HK\$3,400 (2002: HK\$3,960) were payable to the MPF Scheme and were included in accrued charges and other payables.

10. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

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

| | 2003 | 2002 |
|---|----------------|-------------|
| | HK\$ | HK\$ |
| Fees | 70,000 | 74,219 |
| Salaries, allowances and benefits in kind | 523,200 | 670,813 |
| Retirement benefit costs | 12,000 | 18,908 |
| | 605,200 | 763,940 |
| | 605,200 | 763,940 |

During the year, two (2002: three) out of the three (2002: four) executive directors of the Company received emoluments of HK\$261,600 and HK\$273,600 (2002: HK\$261,600, HK\$273,568 and HK\$154,553) respectively. The remaining directors did not receive any emolument for the year ended 31st December 2003 and 31st December 2002. No directors waived or agreed to waive any emoluments during the year ended 31st December 2003 and 31st December 2002.

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

- (b) During the year ended 31st December 2002, 49,000,000 options were granted to the directors under the share option scheme of the Company (the "Share Option Scheme"). The market value per share at the date of grant was HK\$0.158.

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2003 include two (2002: two) directors whose emoluments are reflected in the analysis presented above. The aggregate emoluments paid and payable to the remaining three (2002: three) individuals during the year are as follows:

| | 2003 | 2002 |
|---|----------------|-------------|
| | HK\$ | HK\$ |
| Salaries, allowances and benefits in kind | 750,600 | 895,503 |
| | 750,600 | 895,503 |
| | 750,600 | 895,503 |

- (c) During the year, the Group has not paid any emoluments to the directors or the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2002: Nil).

Notes to the Financial Statement

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December 2003 is based on the Group's net loss for the year of HK\$39,631,286 (2002: HK\$3,387,995) and on 600,000,000 (2002: 600,000,000) ordinary shares in issue during the year.

For the year ended 31st December 2003 and 31st December 2002, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share from continuing ordinary operations.

The adjustment to comparative basic loss per share, arising from the change in accounting policy shown in note 3 above, is as follows:

Reconciliation of 2002 basic loss per share:

| | <i>HK\$ Cents</i> |
|--|----------------------|
| Reported figure before adjustment | (0.55) |
| Adjustment arising from the adoption of SSAP12 (Revised) | <u>(0.01)</u> |
| Restated | <u><u>(0.56)</u></u> |

12. PROPERTY, PLANT AND EQUIPMENT

The Group

| | Land use rights and leasehold properties HK\$ | Leasehold improve- ments HK\$ | Plant and machinery HK\$ | Furniture, fixtures and equipment HK\$ | Motor vehicles HK\$ | Total HK\$ |
|---|---|--|--------------------------------|--|---------------------------|-------------------|
| Cost or valuation | | | | | | |
| At 1st January 2003 | 9,011,612 | 60,202 | 75,416,702 | 2,880,492 | 467,704 | 87,836,712 |
| Additions | 486,391 | — | 1,935,952 | 38,322 | 89,069 | 2,549,734 |
| Transfer from assets under construction (Note 13) | 346,638 | — | — | — | — | 346,638 |
| Disposals | — | — | — | — | (203,549) | (203,549) |
| At 31st December 2003 | <u>9,844,641</u> | <u>60,202</u> | <u>77,352,654</u> | <u>2,918,814</u> | <u>353,224</u> | <u>90,529,535</u> |
| Depreciation, amortisation and impairment | | | | | | |
| At 1st January 2003 | 588,235 | 15,050 | 27,566,895 | 1,589,168 | 467,704 | 30,227,052 |
| Charge for the year | 411,486 | 15,051 | 5,350,889 | 193,382 | 3,340 | 5,974,148 |
| Eliminated on disposals | — | — | — | — | (203,549) | (203,549) |
| Impairment loss recognised in the income statement | — | — | 32,535,188 | 163,837 | — | 32,699,025 |
| At 31st December 2003 | <u>999,721</u> | <u>30,101</u> | <u>65,452,972</u> | <u>1,946,387</u> | <u>267,495</u> | <u>68,696,676</u> |
| Net book values | | | | | | |
| At 31st December 2003 | <u>8,844,920</u> | <u>30,101</u> | <u>11,899,682</u> | <u>972,427</u> | <u>85,729</u> | <u>21,832,859</u> |
| At 31st December 2002 | <u>8,423,377</u> | <u>45,152</u> | <u>47,849,807</u> | <u>1,291,324</u> | <u>—</u> | <u>57,609,660</u> |

Notes to the Financial Statement

12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The analysis of the cost or valuation of the above property, plant and equipment is as follows:

| | Land use rights and leasehold properties HK\$ | Leasehold improve- ments HK\$ | Plant and machinery HK\$ | Furniture, fixtures and equipment HK\$ | Motor vehicles HK\$ | Total HK\$ |
|-------------------------|---|--|--------------------------------|--|---------------------------|-------------------|
| At 31st December 2003 | | | | | | |
| At cost | 1,844,641 | 60,202 | 77,352,654 | 2,918,814 | 353,224 | 82,529,535 |
| At valuation (Note (b)) | 8,000,000 | — | — | — | — | 8,000,000 |
| | <u>9,844,641</u> | <u>60,202</u> | <u>77,352,654</u> | <u>2,918,814</u> | <u>353,224</u> | <u>90,529,535</u> |
| 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> |

Notes:

- (a) During the year, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets related to optoelectronic products were impaired as no future cash inflow would be generated from the business segment of optoelectronic products. Accordingly, impairment loss of HK\$32,699,025 and HK\$4,100,944 (note 13) have been recognised in respect of property, plant and equipment and assets under construction respectively.
- (b) The Group's land use rights and leasehold properties are located in the PRC under medium lease terms.
- (c) 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 2003 and are of the opinion that the fair value of the assets is not materially different from the carrying amount.
- (d) The carrying amount of the Group's land use rights and leasehold properties would have been HK\$5,402,316 (2002: HK\$4,917,759) had they been stated at cost less accumulated depreciation.
- (e) At 31st December 2003, the net book value of motor vehicles includes an amount of HK\$85,729 (2002: Nil) in respect of assets held under finance leases.
- (f) At 31st December 2003, the Group's land use rights and leasehold properties with an aggregate net book value of HK\$8,844,920 (2002: HK\$7,472,045) were pledged as security to secure bank loans.

Notes to the Financial Statement

13. ASSETS UNDER CONSTRUCTION

The Group

| | Leasehold properties <i>HK\$</i> | Plant and machinery <i>HK\$</i> | Total <i>HK\$</i> |
|--|--|---------------------------------------|----------------------|
| At 1st January 2002 | 1,001,332 | 7,987,351 | 8,988,683 |
| Additions | 346,638 | — | 346,638 |
| Transfer to property, plant and equipment | (1,001,332) | (5,268,004) | (6,269,336) |
| At 31st December 2002 | 346,638 | 2,719,347 | 3,065,985 |
| Additions | 255,918 | 1,403,860 | 1,659,778 |
| Transfer to property, plant and equipment (<i>Note 12</i>) | (346,638) | — | (346,638) |
| Impairment loss recognised in the income statement (<i>Note 12 (a)</i>) | (38,952) | (4,061,992) | (4,100,944) |
| At 31st December 2003 | <u>216,966</u> | <u>61,215</u> | <u>278,181</u> |

14. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|--|--------------------------|---------------------|
| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> |
| Unlisted shares, at cost | 10,392,027 | 10,392,027 |
| Amounts due from subsidiaries | 51,532,415 | 51,668,465 |
| | 61,924,442 | 62,060,492 |
| Less: Allowances for amounts due from subsidiaries | (40,308,158) | (2,004,079) |
| | <u>21,616,284</u> | <u>60,056,413</u> |

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

Details of subsidiaries held by the Company at 31st December 2003 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 |
|---------------------------------------|---|---|--|-------------------------|
| <i>Interest held directly:</i> | | | | |
| Oriental Light (Holdings) Limited | British Virgin Islands | Investing holding/ Hong Kong | 25,000,000 shares of HK\$1 each | 100% |

Notes to the Financial Statement

14. INTERESTS 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 |
|--|---|--|---|----------------------|
| <i>Interest held indirectly:</i> | | | | |
| Oriental Light Industries Limited | Hong Kong | Investment holding and trading of synthetic sapphire watch crystals/PRC and Hong Kong | 1,000,000 shares of HK\$1 each | 100% |
| Orient Light (Fuqing) Co., Ltd. | PRC # | Manufacturing of synthetic sapphire watch crystals/PRC | Total registered capital being HK\$35,500,000 of which HK\$33,000,000 being paid up | 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% |
| Fast Systems Limited | Hong Kong | Inactive | 2 shares of HK\$1 each | 100% |
| Principle Industries Limited | British Virgin Islands | Investment holding/ Hong Kong | 1 share of US\$1 | 100% |
| Superjet Technologies Limited | Hong Kong | Investment holding and trading of ferrules/PRC and Hong Kong | 2 shares of HK\$1 each | 100% |
| Fujian Superjet Technologies Co., Ltd. | PRC # | Manufacturing of ferrules/PRC | Total registered capital being US\$7,100,000 of which US\$5,137,350 being paid up | 100% |

The companies are wholly foreign owned enterprises in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Notes to the Financial Statement

15. INVENTORIES

| | THE GROUP | |
|-------------------------------|------------------|-------------|
| | 2003 | 2002 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Raw materials and consumables | 1,353,745 | 555,119 |
| Work-in-progress | 2,102,424 | 1,616,548 |
| Finished goods | 4,245,482 | 2,750,891 |
| | 7,701,651 | 4,922,558 |
| | 7,701,651 | 4,922,558 |

At 31st December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$3,435,030 (2002: HK\$1,706,200).

16. TRADE RECEIVABLES

The Group's terms on credit sale primarily range from 30 to 120 days. A longer credit period is granted to the watch distributor located in Taiwan.

The aged analysis of trade receivables is stated as follows :

| | THE GROUP | |
|--------------|-------------------|-------------|
| | 2003 | 2002 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Current | 2,654,057 | 4,983,317 |
| 31 — 60 days | 1,698,166 | 2,260,814 |
| 61 — 90 days | 750,072 | 2,206,829 |
| Over 90 days | 4,978,763 | 4,137,033 |
| | 10,081,058 | 13,587,993 |
| | 10,081,058 | 13,587,993 |

17. PLEDGED BANK DEPOSITS

At 31st December 2003, bank deposits of the Group of HK\$2,290,899 (2002: Nil) were pledged as security for a short-term bank loan and trade finance facility of the Group.

18. BANK BALANCES AND CASH

At 31st December 2003, included in the Group's bank balances and cash were amounts of approximately HK\$863,000 (2002: approximately HK\$278,000), 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 Financial Statement

19. TRADE PAYABLES AND BILLS PAYABLE

The age analysis of trade payables is stated as follows :

| | THE GROUP | |
|---------------|------------------|------------------|
| | 2003 | 2002 |
| | HK\$ | HK\$ |
| Current | 343,909 | 2,086,001 |
| 31 — 60 days | 1,420,686 | 1,510,216 |
| 61 — 90 days | 1,509,400 | 801,115 |
| Over 90 days | 3,691,264 | 1,085,922 |
| | <u>6,965,259</u> | <u>5,483,254</u> |
| Bills payable | 2,571,970 | — |
| | <u>9,537,229</u> | <u>5,483,254</u> |

All bills payable are matured within one year.

At 31st December 2003, included in the Group's trade payables was amount of approximately HK\$2,972,000 (2002: Nil) which is unsecured and bear interest at 3% per annum.

20. OBLIGATIONS UNDER FINANCE LEASES

The Group

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|----------|---|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Amounts payable under finance leases: | | | | |
| Within one year | 376,328 | — | 334,832 | — |
| In the second to fifth year inclusive | 596,883 | — | 569,553 | — |
| | <u>973,211</u> | <u>—</u> | <u>904,385</u> | <u>—</u> |
| Less: future finance charges | (68,826) | — | N/A | — |
| Present value of lease obligations | <u>904,385</u> | <u>—</u> | <u>904,385</u> | <u>—</u> |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | (334,832) | — |
| Amount due for settlement after 12 months | | | <u>569,553</u> | <u>—</u> |

Notes to the Financial Statement

20. OBLIGATIONS UNDER FINANCE LEASES *(cont'd)*

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 3 years. For the year ended 31st December 2003, the average effective borrowing rate was 5.5% per annum. Interest rates are fixed at the contract date.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. The obligations under financial leases of HK\$861,049 (2002: Nil) were under unlimited corporate guarantee provided by the Company.

21. BORROWINGS

The Group

| | 2003 HK\$ | 2002 HK\$ |
|-----------------------|--------------|--------------|
| Bank loans, secured | 8,236,664 | 5,028,145 |
| Other loans, secured | 1,355,703 | — |
| | 9,592,367 | 5,028,145 |
| Bank loans, unsecured | — | 3,350,000 |
| | 9,592,367 | 8,378,145 |

The original maturity of the above bank and other loans is as follows:

| | | |
|---|-------------|-------------|
| On demand or within one year | 8,408,215 | 7,024,413 |
| More than one year, but not exceeding two years | 1,184,152 | 773,561 |
| More than two years, but not exceeding five years | — | 580,171 |
| | 9,592,367 | 8,378,145 |
| Less: Amounts due within one year shown under current liabilities | (8,408,215) | (7,024,413) |
| Amounts due after one year | 1,184,152 | 1,353,732 |

At 31st December 2003, the bank loans of HK\$4,446,664 (2002: HK\$5,028,145) were secured by the Group's land use rights and leasehold properties with an aggregate net book value of HK\$8,844,920 (2002: HK\$7,472,045) and the bank loan of HK\$3,790,000 (2002: Nil) was secured by bank deposits. All the bank loans were under the unlimited corporate guarantee provided by the Company.

At 31st December 2003, the other loans of HK\$1,355,703 (2002: Nil) were secured by the Group's plant and machinery.

Notes to the Financial Statement

22. SHARE CAPITAL

| | 2003 HK\$ | 2002 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> |

There was no movement of share capital during both years.

23. RESERVES

The Company

| | Share premium HK\$ | Accumulated losses HK\$ | Total HK\$ |
|-----------------------|--------------------------|-------------------------------|---------------------|
| At 1st January 2002 | 1,796,747 | (201,139) | 1,595,608 |
| Net loss for the year | — | (1,954,842) | (1,954,842) |
| At 31st December 2002 | 1,796,747 | (2,155,981) | (359,234) |
| Net loss for the year | — | (38,258,264) | (38,258,264) |
| At 31st December 2003 | <u>1,796,747</u> | <u>(40,414,245)</u> | <u>(38,617,498)</u> |

24. DEFERRED TAXATION

The following are the major deferred tax (liability) assets recognised by the Group and movements thereon during the year:

THE GROUP

| | Revaluation of land use rights and leasehold properties HK\$ | Accelerated accounting depreciation HK\$ | Tax losses HK\$ | Total HK\$ |
|--|--|---|--------------------|------------------|
| At 1st January 2002 | | | | |
| — as previously reported | — | — | — | — |
| — adjustment on adoption of SSAP 12 (Revised) (Note 3) | (529,824) | 2,032,593 | — | 1,502,769 |
| — as restated | (529,824) | 2,032,593 | — | 1,502,769 |
| Credited (charged) to the income statement for the year | 22,833 | (139,093) | — | (116,260) |
| At 31st December 2002 | (506,991) | 1,893,500 | — | 1,386,509 |
| Credited (charged) to the income statement for the year | 22,763 | (279,489) | 540,223 | 283,497 |
| At 31st December 2003 | <u>(484,228)</u> | <u>1,614,011</u> | <u>540,223</u> | <u>1,670,006</u> |

For the purposes of the balance sheet presentation, the above deferred tax assets and liability have been offset in accordance with the conditions set out in SSAP12 (Revised).

At 31st December 2003, the Group has unused tax losses of approximately HK\$3,940,000 (2002: Nil) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$3,252,000 (2002: Nil) of such losses. The recognised tax losses of approximately HK\$2,099,000 may be carried forward indefinitely. Other recognised tax losses will expire in 2008. No deferred tax asset has been recognised in respect of the remaining losses of approximately HK\$688,000 (2002: Nil) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2008.

At 31st December 2003, the Group has deductible temporary differences of approximately HK\$32,527,000 (2002: HK\$1,224,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

No provision for deferred taxation has been recognised in the financial statements of the Company as the amount involved is insignificant.

Notes to the Financial Statement

25. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under operating leases in respect of rented premises which fall due as follows:

| | Land and buildings | | Other property, plant and equipment | |
|---------------------------------------|--------------------|----------------|--|---------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Within one year | 93,632 | 160,512 | 12,600 | 12,600 |
| In the second to fifth year inclusive | — | 80,256 | 2,100 | 14,700 |
| | <u>93,632</u> | <u>240,768</u> | <u>14,700</u> | <u>27,300</u> |

Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

At 31st December 2003, the Company had no commitments under operating leases (2002: Nil).

26. CAPITAL COMMITMENTS

At 31st December 2003, the Group had capital commitments of HK\$6,980,568 (2002: HK\$7,823,913) contracted but not provided for in respect of the purchases and construction of property, plant and equipment.

On 30th April 2004, both the supplier and the Group agreed to terminate the acquisition contracts and the Group was not required to settle the capital commitments of HK\$6,980,568.

At 31st December 2003, the Company had no capital commitments (2002: Nil).

27. MAJOR NON-CASH TRANSACTION

During the year the Group entered into finance leases arrangements in respect of assets with a total capital value at the inception of the finance leases of HK\$1,044,348 (2002: Nil).

28. CONTINGENT LIABILITIES

At 31st December 2003, the Group had no material contingent liabilities (2002: Nil).

The Company provided an unlimited corporate guarantee for banking facilities of subsidiaries aggregating to HK\$10,025,279 (2002: HK\$9,028,145), of which HK\$9,097,713 (2002: HK\$8,378,145) was utilised at 31st December 2003.

29. SHARE OPTION SCHEME

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 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 per cent. 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 | |
|---|--------------------------|-------------------|
| | 2003 | 2002 |
| At the beginning of year | 60,000,000 | — |
| Granted (<i>Note (i)</i>) | — | 60,000,000 |
| | 60,000,000 | 60,000,000 |
| At the end of year (<i>Note (ii)</i>) | 60,000,000 | 60,000,000 |

- (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 consideration was received in respect of the share options granted during the year ended 31st December 2002.

Notes to the Financial Statement

29. SHARE OPTION SCHEME (cont'd)

(ii) Share options outstanding at 31st December 2003 and 2002 have the following terms :

| Category | Expiry date | Exercise price HK\$ | Number of options | |
|-----------|---------------|------------------------|-------------------|-------------------|
| | | | 2003 | 2002 |
| Directors | 6th June 2012 | 0.158 | 49,000,000 | 49,000,000 |
| Employees | 6th June 2012 | 0.158 | 11,000,000 | 11,000,000 |
| | | | <u>60,000,000</u> | <u>60,000,000</u> |

No share options were exercised or cancelled during both years.

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

(i)

| | Notes | 2003 HK\$ | 2002 HK\$ |
|--|-------|--------------|--------------|
| Sales of optoelectronic products to the subsidiary of OMAX Technologies, Inc. | (a) | 559,507 | — |
| Purchase of raw materials from OMAX Technologies, Inc. | (b) | — | 605,043 |
| Purchase of plant and machinery for optoelectronic products from OMAX Technologies, Inc. | (b) | — | 221,721 |

Notes:

- (a) The sales of goods to the subsidiary of OMAX Technologies, Inc., a substantial shareholder, were carried at market price.
- (b) Purchase of raw materials and plant and machinery were conducted at prices and terms mutually agreed between both parties.
- (ii) Directors, Mr. Liao Lien Shen and Mr. Liao Ko Ping, provided a limited joint guarantee to the subsidiary of the Company to guarantee for the general banking facility of HK\$3,900,000 (2002: Nil).

30. RELATED PARTY TRANSACTIONS *(cont'd)*

- (iii) During the year, a related company provided the trademarks of several watches brands to a subsidiary of the Company for watch distribution at nil consideration. Directors, Mr. Liao Lien Shen and Mr. Liao Ko Ping, are the beneficial owners and directors of the related company.
- (iv) At 31st December 2002, included in deposits, prepayments and other receivables of the Group was an amount of HK\$200,000 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 current year was HK\$200,000.

31. POST BALANCE SHEET EVENT

On 2nd January 2004, the Company issued a convertible note of US\$1 million (approximately HK\$7.8 million) to Shuttle Inc., an independent third party. The convertible note bears interest at 6% per annum which is payable quarterly in arrear from the issue date of 2nd January 2004 to the maturity date of 30th June 2006. The convertible note is guaranteed by the Company and jointly guaranteed by directors, Mr. Liao Lien Shen and Mr. Liao Ko Ping. The holder of the convertible note is entitled to convert in full into 78,000,000 ordinary shares of the Company at any time before the maturity date at a conversion price of HK\$0.10 per ordinary share. The net proceeds of HK\$7.8 million from the issue of the convertible note is used as working capital of the Group. Details of the transaction and the convertible note are set out in the Company's announcement dated 29th April 2004.

Financial Summary

| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> (Restated) | 2001 <i>HK\$</i> (Restated) | 2000 <i>HK\$</i> (Restated) | 1999 <i>HK\$</i> (Restated) |
|--------------------------------|----------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Results | | | | | |
| Turnover | <u>47,119,920</u> | <u>44,165,820</u> | <u>45,393,083</u> | <u>49,104,906</u> | <u>26,687,576</u> |
| Net (loss) profit for the year | <u>(39,631,286)</u> | <u>(3,387,995)</u> | <u>773,497</u> | <u>1,329,841</u> | <u>(2,774,821)</u> |
| Total assets | <u>47,290,702</u> | <u>83,823,285</u> | <u>92,874,756</u> | <u>36,592,883</u> | <u>31,443,544</u> |
| Total liabilities | <u>25,894,713</u> | <u>22,796,010</u> | <u>28,459,486</u> | <u>40,995,049</u> | <u>37,111,252</u> |
| Net assets (liabilities) | <u>21,395,989</u> | <u>61,027,275</u> | <u>64,415,270</u> | <u>(4,402,166)</u> | <u>(5,667,708)</u> |

Note: Prior years figures have been adjusted to reflect the change in accounting policy for the adoption of SSAP12 (Revised) "Income Taxes" as described in note 3 to the financial statements.