



FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東光集團有限公司\*

Incorporated in the Cayman Islands with limited liability

# Annual Report 2004

\*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.

## Table of Contents

---

	<i>Page</i>
Corporate information	2
Notice of Annual General Meeting	4
Chairman's Statement	6
Management Discussion and Analysis	7
Report of the Directors	11
Auditors' Report	18
Consolidated Income Statement	20
Consolidated Balance Sheet	21
Balance Sheet	22
Consolidated Statement of Changes in Equity	23
Consolidated Cash Flow Statement	24
Notes to the Financial Statement	25
Financial Summary	50

## 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 Mr. Lam Ngai Ming
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

---

Joint auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i>
	CWCC <i>Certified Public Accountants</i>
Stock code	8150

## Notice of Annual General Meeting

---

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Fast Systems Technology (Holdings) Limited (the "Company") will be held at Unit No. 7-8, 10th Floor, Grand City Plaza, Nos. 1-17 Sai Lau Kok Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 24th August 2005 at 10:00 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31st December 2004;
2.
  - (a) to re-elect Mr. Tam Yeung Kai, Vicko as independent non-executive director of the Company.
  - (b) to re-elect Mr. Cheng, Isaac as independent non-executive director of the Company.
  - (c) to authorise the directors of the Company (the "Directors") to fix their remuneration;
3. to re-appoint the Company's auditors and to authorise the Directors to fix their remuneration.

By Order of the Board  
**Fast Systems Technology (Holdings) Limited**  
**Wong Chi Wing**  
*Company Secretary*

Hong Kong, 28th July 2005

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

Office Unit No. 7-8, 10th Floor, Grand City Plaza  
Nos. 1-17 Sai Lau Kok Road, Tsuen Wan  
New Territories, Hong Kong

*Members of the Board:*

Liao Lien Shen, *Chairman*  
Liao Ko Ping, *Managing Director*  
Liao Chin Te, *Executive Director*  
Tam Yeung Kai, *Vicko Independent Non-executive Director*  
Cheng, Isaac *Independent Non-executive Director*  
Lam Ngai Ming *Independent Non-executive Director*

*Notes:*

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

## Notice of Annual General Meeting

---

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's Hong Kong branch registrar, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. The register of members of the Company will be closed from 22nd August 2005 (Monday) to 24th August 2005 (Wednesday), both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong. Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 19th August 2005 (Friday).

## Chairman's Statement

---

Year 2004 was another challenging year for the Group. Overall sales improved but profit margin was reduced due to keen competition.

Sales of sapphire watch crystal to the Taiwan market and Hong Kong market improved during the year. The Group was able to maintain its sales of sapphire watch crystal to prestigious Swiss wristwatches manufacturers in 2004 but profit margin was reduced due to keen competition. Overall sales of sapphire watch crystal in 2004 increased by 10.5% to HK\$35.1 million.

During 2004, the Group increased sales of ferrules by 86.2% to HK\$7.4 million. However, the current market price of ferrules is low, the management will try to develop the specialized ferrules niche market, which offer better price and less competition. In addition, the Group will take full advantage of its technical know-how and broaden its product range to supply ceramic components for the watch industry.

The watch distribution division recorded sales of HK\$8.5 million in 2004, representing a decrease of 26.1% over 2003. The Group will further expand its watch distribution network in Taiwan and secure more new watch models to improve sale in 2005.

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 2005.

**Liao Lien Shen**

*Chairman*

Hong Kong, 25th July 2005



### FINANCIAL REVIEW

Total turnover of the Group for the year ended 31st December 2004 amounted to HK\$50,887,480, representing a 8.0% increase from that of HK\$47,119,920 generated in the year ended 31st December 2003.

#### Sapphire watch crystals division

During 2004, the Group was able to maintain order from Swiss customers despite fierce competition. Turnover generated from Swiss customers increased to HK\$23,270,130, representing a 0.2% increase from that of HK\$23,225,326 generated in the year ended 31st December 2003. However, sales to customers in Taiwan reduced drastically to HK\$1,420,601, representing a 42.2% decrease from that of HK\$2,459,858 in the year ended 31st December 2003. Turnover from Hong Kong customers increased to HK\$10,369,884 in the year ended 31st December 2004, representing 71.8% increase from that of HK\$6,037,544 generated in the year ended 31st December 2003.

The turnover of the sapphire watch crystals for the year ended 31st December 2004 increased by HK\$3,337,887, cost of sales of the sapphire watch crystals during the same period increased to HK\$29,303,577 from that of HK\$24,260,563 in the year ended 31st December 2003. Gross profit margin for the division decreased to approximately 16.4% in the year ended 31st December 2004 from 23.5% in the year ended 31st December 2003. The decrease in gross profit margin was primarily attributable to keen price competition which reduced contribution from sales of synthetic sapphire watch crystals to Swiss customers.

#### Watch distribution division

Sales generated from watch distribution division in 2004 decreased by HK\$2,984,082 to HK\$8,451,231, representing 26.1% decrease from that of HK\$11,435,313 for the year ended 31st December 2003. Cost of sales for the corresponding periods were HK\$5,763,867 and HK\$6,820,015 respectively. Gross profit margin for the division was in 2004 was 31.8%, 8.6% lowered than that of 40.4% in 2003 as a result of selling of more lower margin watches.

#### Optoelectronics products division

Sales of ferrules was HK\$7,375,634 for the year ended 31st December 2004, increased by 3,413,755 or 86.2% increase from that of HK\$3,961,879 in the year ended 31st December 2003. Cost of sales for the corresponding periods were HK\$7,393,149 and HK\$7,499,081 respectively.

#### Other revenue

Other revenue for the year ended 31st December 2004 amounted to HK1,376, representing 63.9% decrease from that of HK\$3,816 generated in the year ended 31st December 2003.

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 2004.

## Management Discussion and Analysis

---

### Distribution costs, administrative and other operating expenses

Distribution costs for the year ended 31st December 2004 totalled HK\$1,043,750. This represents a decrease of HK\$49,016 from that recorded in the year ended 31st December 2003. The slight decrease in distribution costs was a result of saving in distribution cost on sales of sapphire watch crystals to Hong Kong customers while offset by higher distribution cost on sales of optoelectronics products to Taiwan customers.

Total administrative expenses were approximately HK\$8,793,034 for the year ended 31st December 2004 and HK\$8,422,172 for the year ended 31st December 2003. However, administrative, advertising and promotion expenses for the watch distribution division was HK\$2,156,242 (2003: HK\$1,306,861) after deducting contribution from Swiss wristwatch principals. Administrative expenses attributable to the optoelectronic products division was HK\$1,057,069 (2003: HK\$772,976). After excluding the administrative expenses of these two divisions, the general administrative expenses were approximately HK\$5,579,723 (2003: HK\$6,342,335), representing a decrease of HK\$762,612.

Other operating expenses was approximately HK\$1,944,569 (2003: HK\$1,463,822), representing an increase of HK\$480,747. This was mainly due to the fluctuation in exchange rate of Swiss Francs and Euro in 2004 causing an exchange loss of HK\$271,910 (2003: HK\$491,303 gain).

### Financial resources and liquidity

The Group's shareholders funds was reduced to HK\$15,600,247 as at 31st December 2004 (2003: HK\$21,395,989) due to loss incurred in 2004. Current assets amounted to HK\$27,925,514 as at 31st December 2004 (2003: HK\$23,509,656), of which HK\$1,041,457 (2003: HK\$1,790,531) was cash and bank balances. HK\$1,942,642 (2003: HK\$2,290,899) was placed in time deposit accounts to secure certain bank borrowings of HK\$3,438,426 as at 31st December 2004 (2003: HK\$3,790,000). Bank borrowings of HK\$3,837,947 (2003: HK\$4,446,664) were secured by a mortgage on the Groups property interests in the PRC with net book value amounted to HK\$8,600,401 (2003: HK\$8,844,920).

As at 31st December 2004, the Group total borrowings amounted to approximately HK\$18,289,458 (2003: HK\$10,496,752), of which approximately HK\$5,376,373 was denominated in US dollar and the remaining balances were denominated in Hong Kong dollars. As at 31st December 2004, HK\$7,881,758 (2003: HK\$8,408,215) were short-term borrowings repayable within one year.

The Groups gearing ratios, calculated based on total borrowings and shareholders' equity and bank borrowings over shareholders' equity, as at 31st December 2004 was 117% (2003: 49%) and 47% (2003: 45%) respectively.

### 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\$15.1 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 announcement, the Group has no material contingent liabilities.

### Employees

As at 31st December 2004, the Group had 431 employees. Employees were remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits included free accommodation at the Groups staff quarters in PRC and performance bonus. Total staff costs including directors' remuneration for 2004 was HK\$6,674,304 (2002: HK\$5,637,626).

### Major acquisitions

During the year, The Group acquired additions to fixed assets and incurred additions to assets under construction totalling HK\$1,615,634 (2003: HK\$4,209,512), for the expansion of the watch crystals production facilities and the set up of the optoelectronic production facilities.

### Capital structure

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

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

The Group had no Material acquisitions and disposal of subsidiaries and affiliated companies during the year ended 31st December 2004.

### Segmental information

An analysis of the Group's for the year by principal activities and geographical segments is set out in Note 1 to the audited results above and further elaborated under "Financial Review" of this section.

### BUSINESS REVIEW

The turnover of the sapphire watch crystals for the year ended 31st December 2004 increased by HK\$3,337,887, cost of sales of the sapphire watch crystals during the same period increased to HK\$29,303,577 from that of HK\$24,260,563 in the year ended 31st December 2003. Gross profit margin for the division decreased to approximately 16.4% in the year ended 31st December 2004 from 23.5%% in the year ended 31st December 2003. The decrease in gross profit margin was primarily attributable to keen price competition which reduced contribution from sales of synthetic sapphire watch crystals to Swiss customers.

The watch distribution division generated sales of HK\$8,451,231 in 2004 (2003: HK\$11,435,313) and the gross profit margin was 31.8% (2002: 40.4%).

During 2004, the ferrules division generated sales of HK\$7,375,634 (2003: 3,961,879).

## Management Discussion and Analysis

---

### PROSPECTS

The Board expects that the demand for synthetic sapphire watch crystals will remain stable for 2005. Given the lower price trend for standard ferrules, the management will try to develop the specialized ferrules niche market, which offer better price and less competition.

The Board expects sales of watches in Taiwan shall improve with new watch models and further development of distribution network in 2005.

The Directors present their report together with the audited accounts for the year ended 31st December 2004.

### **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**

Details of the audited results of the Group for the year ended 31st December 2004 are set out in the consolidated income statement on page 20.

### **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 23 and note 24 to the accounts respectively.

### **DONATIONS**

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

### **FIXED ASSETS**

Details of the movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

### **DISTRIBUTABLE RESERVES**

As at 31st December 2004 the Company's distributable reserves balance was nil (2003: nil).

### **SUBSIDIARIES**

Details of the Company's subsidiaries as at 31st December 2004 are set out in note 14 to the accounts.

## Report of the Directors

---

### PRE-EMPTIVE RIGHTS

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

### GROUP FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last four financial years is set out on page 50.

### DIRECTORS

#### Executive Directors

**Mr. LIAO Lien Shen**, aged 67, 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 42, 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 39, 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 48, 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 45, 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 22 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.

**Mr. LAM Ngai Ming**, aged 36, is a assistant general manager of a plastic injection and mould manufacturing company. He holds a master degree in business administration, a bachelor degree in mechanical engineering and is an associate member of the Association of Chartered Certified Accountants. He has substantial experience in quality control, logistics, sales and administration in the toys industry. He is appointed as an independent non-executive Director with effect from 27th September 2004.

### 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.

### CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions, which also constitute related party transactions and are set out in note 32 to the accounts.

### Convertible note

On 2nd January 2004, the Company issued a convertible note of US\$1 million (equivalent to 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.

	Convertible Note held at 1st January 2004	Convertible Note issued during the year	Convertible Note held at 31st December 2004	Conversion price HK\$	Issued Date	Convertible from	Convertible until
Shuttle Inc.	—	US\$1,000,000	US\$1,000,000	0.10	2nd January 2004	2nd January 2004	30th June 2006

## Report of the Directors

### 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 2004	Options granted during the year	Options held at 31st December 2004	Exercise price HK\$	Grant Date	Exercisable from	Exercisable until
Liao Ko Ping	30,000,000	—	30,000,000	0.158	6th June 2002	6th June 2005	6th June 2012
Liao Lien Shen	19,000,000	—	19,000,000	0.158	6th June 2002	6th June 2005	6th June 2012
Continuous Contract employees	11,000,000	—	11,000,000	0.158	6th June 2002	6th June 2005	6th June 2012

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

As at 31st December 2004, 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	Note	No. of Shares held				Total
		Personal Interest	Family Interest	Corporate Interest	Other Interest	
Mr. Liao Lien Shen	1	—	—	80,000,000	—	80,000,000
Mr. Liao Ko Ping	2	1,233,336	—	195,000,000	—	196,233,336

Notes:

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



Save as disclosed above, as at 31st December 2004, 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 2004, 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:

1. 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.
2. 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 2004, 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 2004, no other person is individually and/or collectively entitled to exercise or control the exercise of five per cent. or more of the voting power at the general meetings of the Company and are able, as a practicable manner, to direct or influence the management of the Company.

## Report of the Directors

---

### **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 2004.

### **MAJOR CUSTOMERS AND SUPPLIERS**

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

—	the largest customer	28%
—	five largest customers	61%

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

—	the largest supplier	25%
—	five largest suppliers	66%

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 2004.

### **SENIOR MANAGEMENT**

**Mr. WONG Chi Wing** CGA, ACMA, aged 45, 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 2004.

### **COMPETING INTERESTS**

During the year ended 31st December 2004, 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.

### CORPORATE GOVERNANCE

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31st December 2004.

The Company has complied throughout the period under review with the provisions on board practice and procedures in the GEM Listing Rules, which was substantially revised with effect from 1st January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, from the financial year commencing on 1st January 2005.

### 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 three independent non-executive directors, namely Mr. Tam Yeung Kai, Vicko, Mr. Cheng, Isaac and Mr. Lam Ngai Ming. The chairman of the audit committee is Mr. Tam Yeung Kai, Vicko.

The Company's financial statements for the year ended 31st December 2004 have been reviewed by the audit committee. The audit committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosures have been fully made.

### AUDITORS

The accounts have been jointly audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and CWCC, Certified Public Accountants, Hong Kong who retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On Behalf of the Board

**Liao Lien Shen**

*Chairman*

Hong Kong, 25th July 2005

## 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 20 to 49 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.

#### **Fundamental uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements regarding the liquidity of the Group and the steps being taken by the directors to improve the position. Provided that additional equity funding can be secured, the directors are satisfied that the Group will be able to repay the convertible note amounting to HK\$7,800,000 which will mature on 30th June 2006 as disclosed in note 26 to the financial statements and meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future fundings being available. The financial statements do not include any adjustments that would result from a failure by the Group to meet in full its financial obligations as they fall due. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements. However, in view of the extent of the uncertainty relating to the successful raising of additional equity funding, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

### Disclaimer of opinion

Because of the extent of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2004, or 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*

Hong Kong  
25th July 2005

**CWCC**  
*Certified Public Accountants*

Hong Kong  
25th July 2005

## Consolidated Income Statement

For the year ended 31st December 2004

	Notes	2004 HK\$	2003 HK\$
Turnover	5	50,887,480	47,119,920
Cost of sales		<u>(42,460,593)</u>	<u>(38,579,659)</u>
Gross profit		8,426,887	8,540,261
Interest income		1,376	3,816
Distribution costs		(1,043,750)	(1,092,766)
Administrative expenses		(8,793,034)	(8,422,172)
Other operating expenses		(1,944,569)	(1,463,822)
Impairment loss recognised in respect of property, plant and equipment		—	(32,699,025)
Impairment loss recognised in respect of assets under construction		<u>—</u>	<u>(4,100,944)</u>
Loss from operations	6	(3,353,090)	(39,234,652)
Finance costs	7	<u>(1,073,419)</u>	<u>(756,258)</u>
Loss before taxation		(4,426,509)	(39,990,910)
Income tax (charge) credit	8	<u>(1,369,233)</u>	<u>359,624</u>
Net loss for the year		<u><u>(5,795,742)</u></u>	<u><u>(39,631,286)</u></u>
Loss per share			
Basic and diluted	11	<u><u>(HK0.97 cent)</u></u>	<u><u>(HK6.61 cent)</u></u>

## Consolidated Balance Sheet

As at 31st December 2004

	Notes	2004 HK\$	2003 HK\$
<b>Non-current assets</b>			
Property, plant and equipment	12	20,624,446	21,832,859
Assets under construction	13	362,300	278,181
Deferred tax assets	24	—	1,670,006
		<u>20,986,746</u>	<u>23,781,046</u>
<b>Current assets</b>			
Inventories	15	11,022,213	7,701,651
Trade receivables	16	12,334,173	10,081,058
Deposits, prepayments and other receivables		1,461,766	1,247,226
Tax recoverable		123,263	398,291
Pledged bank deposits	17	1,942,642	2,290,899
Bank balances and cash	18	1,041,457	1,790,531
		<u>27,925,514</u>	<u>23,509,656</u>
<b>Current liabilities</b>			
Trade payables and bills payable	19	9,359,542	9,537,229
Other payables, deposits received and accruals		4,448,888	4,493,043
Amount due to a director	20	2,038,147	—
Tax payable		1,214,125	1,367,689
Obligations under finance leases — repayable within one year	21	338,418	334,832
Borrowings - repayable within one year	22	7,881,758	8,408,215
		<u>25,280,878</u>	<u>24,141,008</u>
<b>Net current assets (liabilities)</b>		<u>2,644,636</u>	<u>(631,352)</u>
		<u>23,631,382</u>	<u>23,149,694</u>
<b>Capital and reserves</b>			
Share capital	23	60,000,000	60,000,000
Reserves		(44,399,753)	(38,604,011)
		<u>15,600,247</u>	<u>21,395,989</u>
<b>Non-current liabilities</b>			
Obligations under finance leases — repayable over one year	21	231,135	569,553
Borrowings — repayable over one year	22	—	1,184,152
Convertible note	26	7,800,000	—
		<u>8,031,135</u>	<u>1,753,705</u>
		<u>23,631,382</u>	<u>23,149,694</u>

The financial statements on pages 20 to 49 were approved and authorised for issue by the Board of Directors on 25th July 2005 and are signed on its behalf by:

**Liao Lien Shen**  
Director

**Liao Ko Ping**  
Director

## Balance Sheet

As at 31st December 2004

	Notes	2004 HK\$	2003 HK\$
<b>Non-current assets</b>			
Interests in subsidiaries	14	<u>23,732,339</u>	<u>21,616,284</u>
<b>Current assets</b>			
Tax recoverable		8,995	8,995
Bank balances and cash		<u>10,413</u>	<u>10,413</u>
		<u>19,408</u>	<u>19,408</u>
<b>Current liabilities</b>			
Other payables, deposits received and accruals		<u>351,902</u>	<u>253,190</u>
<b>Net current liabilities</b>			
		<u>(332,494)</u>	<u>(233,782)</u>
		<u>23,399,845</u>	<u>21,382,502</u>
<b>Capital and reserves</b>			
Share capital	23	60,000,000	60,000,000
Reserves	24	<u>(44,400,155)</u>	<u>(38,617,498)</u>
		15,599,845	21,382,502
<b>Non-current liability</b>			
Convertible note	26	<u>7,800,000</u>	<u>—</u>
		<u>23,399,845</u>	<u>21,382,502</u>

Liao Lien Shen  
Director

Liao Ko Ping  
Director



## Consolidated Statement of Changes in Equity

*For the year ended 31st December 2004*

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Revaluation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1st January 2003	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	60,000,000	1,796,747	14,607,973	3,136,795	(58,145,526)	21,395,989
Net loss for the year	—	—	—	—	(5,795,742)	(5,795,742)
At 31st December 2004	<u>60,000,000</u>	<u>1,796,747</u>	<u>14,607,973</u>	<u>3,136,795</u>	<u>(63,941,268)</u>	<u>15,600,247</u>

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

## Consolidated Cash Flow Statement

For the year ended 31st December 2004

	2004 HK\$	2003 HK\$
<b>OPERATING ACTIVITIES</b>		
Loss from operations	(3,353,090)	(39,234,652)
Adjustments for:		
Allowance for slow moving inventories	1,397,635	922,738
Depreciation and amortisation	2,739,928	5,974,148
Bad debts written off	654,206	798,963
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
Write off of inventories	1,859,823	1,048,054
Gain on disposals of property, plant and equipment	—	(28,037)
Interest income	(1,376)	(3,816)
Operating cash flows before movements in working capital	<u>3,297,126</u>	<u>6,277,367</u>
Increase in inventories	(6,578,020)	(4,749,885)
(Increase) decrease in trade receivables	(2,253,115)	2,707,972
(Increase) decrease in deposits, prepayments and other receivables	(868,746)	598,169
(Decrease) increase in trade payables and bills payable	(177,687)	4,053,975
Decrease in other payables, deposits received and accruals	(44,155)	(2,918,189)
Cash (used in) generated from operations	(6,624,597)	5,969,409
Interest paid	(1,073,419)	(756,258)
Hong Kong Profits Tax refunded (paid)	422,237	(83,056)
Overseas taxation paid	—	(47,866)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<u>(7,275,779)</u>	<u>5,082,229</u>
<b>INVESTING ACTIVITIES</b>		
Interest income	1,376	3,816
Purchases of property, plant and equipment	(1,253,334)	(1,505,386)
Additions of assets under construction	(362,300)	(1,659,778)
Proceeds from disposals of property, plant and equipment	—	28,037
Decrease (increase) in pledged bank deposits	348,257	(2,290,899)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(1,266,001)</u>	<u>(5,424,210)</u>
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	1,538,426	4,367,673
Increase in amount due to a director	2,038,147	—
Proceeds from issue of convertible note	7,800,000	—
Repayments of bank borrowings	(3,249,035)	(3,153,451)
Repayments of obligations under finance leases	(334,832)	(139,963)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>7,792,706</u>	<u>1,074,259</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(749,074)</u>	<u>732,278</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,790,531</u>	<u>1,058,253</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash</b>	<u><u>1,041,457</u></u>	<u><u>1,790,531</u></u>

### 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 of the Company have given careful consideration to the future liquidity of the Group. The directors of the Company are currently exploring various options for providing additional equity funding to the Group. Provided that additional equity funding can be secured, the directors are satisfied that the Group will be able to repay the convertible note amounting to HK\$7,800,000 which will mature on 30th June 2006 as disclosed in note 26 to the financial statements and 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 year 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 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.

## Notes to the Financial Statement

---

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

#### 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 buildings 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 buildings 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 buildings are stated at cost less depreciation and accumulated impairment losses.

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
Buildings	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%

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

##### **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 HKFRS, in which case the impairment loss is treated as revaluation decrease under that HKFRS.

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 HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

##### **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.

## Notes to the Financial Statement

---

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

#### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies 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.

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.

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

##### **Taxation** *(cont'd)*

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 expenses 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:

<b>Business segments</b>	<b>Regions of operations</b>
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 2004

	Synthetic sapphire watch crystals HK\$	Optoelectronic products HK\$	Watch distribution HK\$	Consolidated HK\$
Turnover	<u>35,060,615</u>	<u>7,375,634</u>	<u>8,451,231</u>	<u>50,887,480</u>
Segment results	<u>1,625,877</u>	<u>(1,136,580)</u>	<u>(65,930)</u>	423,367
Interest income				1,376
Unallocated expenses				<u>(3,777,833)</u>
Loss from operations				<u>(3,353,090)</u>
Finance costs				<u>(1,073,419)</u>
Loss before taxation				<u>(4,426,509)</u>
Income tax charge				<u>(1,369,233)</u>
Net loss for the year				<u>(5,795,742)</u>
Segment assets	26,988,724	5,416,435	4,421,988	36,827,147
Unallocated assets				<u>12,085,113</u>
Total assets				<u>48,912,260</u>
Segment liabilities	6,518,758	5,370,270	1,336,690	13,225,718
Unallocated liabilities				<u>20,086,295</u>
Total liabilities				<u>33,312,013</u>
Capital expenditure	397,174	856,160	—	
Depreciation	2,184,068	94,375	—	
Bad debts written off	654,206	—	—	
Allowance for slow- moving inventories	1,397,635	—	—	
Write off of inventories	<u>—</u>	<u>1,859,823</u>	<u>—</u>	

Segments assets did not include land use rights and buildings, and buildings under construction of HK\$8,600,401 and HK\$362,300 (2003: HK\$8,844,920 and HK\$216,966) respectively as the directors consider that there is no meaningful basis for allocation of such balances among 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 segment *(cont'd)*

#### Year ended 31st December 2003

	Synthetic sapphire watch crystals <i>HK\$</i>	Optoelectronic products <i>HK\$</i>	Watch distribution <i>HK\$</i>	Consolidated <i>HK\$</i>
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	—	
Bad debts written off	798,963	—	—	
Allowance for slow-moving inventories	922,738	—	—	
Write off of inventories	<u>—</u>	<u>1,048,054</u>	<u>—</u>	

## Notes to the Financial Statement

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

#### Secondary reporting format - geographical segments

The group's turnover is presented by geographical markets, irrespective of the origins of goods or services. The group's segment assets and capital expenditures during the year are presented based on the location of assets.

	Segment turnover <i>HK\$</i>	Segment assets <i>HK\$</i>	Segment capital expenditure <i>HK\$</i>
Year ended 31st December 2004			
Europe	23,270,130	4,122,628	—
Hong Kong	10,369,884	7,909,537	—
Taiwan	12,815,708	5,807,091	—
PRC	4,431,758	31,073,004	1,615,634
Total	<u>50,887,480</u>	<u>48,912,260</u>	<u>1,615,634</u>
Year ended 31st December 2003			
Europe	23,225,326	801,104	—
Hong Kong	6,037,544	6,524,399	—
Taiwan	13,895,171	6,143,702	—
PRC	3,961,879	32,151,491	4,209,512
Total	<u>47,119,920</u>	<u>45,620,696</u>	<u>4,209,512</u>

## Notes to the Financial Statement

### 6. LOSS FROM OPERATIONS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	400,000	400,000
Bad debts written off	654,206	798,963
Cost of inventories sold	41,164,046	38,172,550
Depreciation and amortisation		
— owned assets	2,717,661	5,929,741
— assets under finance leases	22,267	44,407
Operating lease rentals		
— land and buildings	136,644	160,512
— other property, plant and equipment	12,600	12,600
Allowance for slow-moving inventories (included in cost of sales)	1,397,635	922,738
Research and development costs (excluding staff costs) ( <i>Note (a)</i> )	294,756	302,177
Staff costs including directors' remuneration ( <i>Notes (a) and 9</i> )	6,674,304	5,637,626
Write off of inventories (included in cost of sales)	1,859,823	1,048,054
Gain on disposals of property, plant and equipment	—	(28,037)
Net exchange loss (gain)	<u>301,572</u>	<u>(445,153)</u>

*Note:*

- (a) Of the total staff costs, HK\$679,531 (2003: HK\$660,222) was attributed to research and development activities of the Group.

### 7. FINANCE COSTS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Interest on:		
Bank and other loans wholly repayable within five years	526,310	664,177
Convertible note	462,950	—
Finance leases	41,874	17,444
Trade payables	42,285	74,637
	<u>1,073,419</u>	<u>756,258</u>

## Notes to the Financial Statement

### 8. INCOME TAX (CHARGE) CREDIT

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

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Current tax :		
Hong Kong Profits Tax ( <i>Note (i)</i> )	—	(5,010)
Other regions in the PRC ( <i>Note (ii)</i> )	—	—
	<u>—</u>	<u>(5,010)</u>
Overprovision in prior years:		
Hong Kong	<b>147,209</b>	81,137
Other regions in the PRC	<b>153,564</b>	—
	<u>300,773</u>	<u>81,137</u>
Deferred tax ( <i>Note 25</i> )	<b>(1,670,006)</b>	283,497
	<u><b>(1,369,233)</b></u>	<u>359,624</u>

*Notes:*

- (i) Hong Kong Profits Tax was provided for at the rate of 17.5% (2003: 17.5%) on the respective estimated assessable profits of the companies within the Group operating in Hong Kong during the year. The Company and the subsidiaries operated in Hong Kong were in loss-making position for the current year and accordingly did not have any taxable profit.
- (ii) Taxation for other regions in the PRC represented tax charge on the estimated assessable profits of two PRC subsidiaries calculated at rates prevailing in the PRC. Both PRC subsidiaries were in loss-making position for the current year and accordingly did not have any taxable profit.

## Notes to the Financial Statement

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

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

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Loss before taxation	<u>4,426,509</u>	<u>39,990,910</u>
Tax at the average income tax rate of 17.3% (2003: 15.3%)	767,386	6,104,822
Tax effect of expenses not deductible for tax purpose	(333,788)	(1,481,580)
Tax effect of income not taxable for tax purpose	46,098	453,915
Overprovision in respect of prior years	300,773	81,137
Tax effect of tax losses/deferred tax assets not recognised	<u>(2,149,702)</u>	<u>(4,798,670)</u>
Tax (charge) credit for the year	<u>(1,369,233)</u>	<u>359,624</u>

The average income tax rates for the year ended 31st December 2004 and the year ended 31st December 2003 represent the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of net loss before taxation and the relevant statutory rates.

Details of recognised and unrecognised deferred tax assets and liability are set out in note 25.

### 9. STAFF COSTS INCLUDING DIRECTOR'S REMUNERATION

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Wages, salaries and other benefits	6,496,056	5,449,024
Retirement benefit costs		
PRC <i>(Note (a))</i>	149,793	157,562
Hong Kong <i>(Note (b))</i>	<u>28,455</u>	<u>31,040</u>
	<u>6,674,304</u>	<u>5,637,626</u>

## Notes to the Financial Statement

### 9. STAFF COSTS INCLUDING DIRECTOR'S REMUNERATION (cont'd)

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 2004, there were no outstanding contributions payable to the Provincial Scheme (2003: 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 2004, contributions of HK\$2,800 (2003: HK\$3,400) 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:

	2004 HK\$	2003 HK\$
Fees	162,800	70,000
Salaries, allowances and benefits in kind	566,800	523,200
Retirement benefit costs	12,000	12,000
	<u>741,600</u>	<u>605,200</u>

During the year, two (2003: two) out of the three (2003: three) executive directors of the Company received emoluments of HK\$283,400 and HK\$295,400 (2003: HK\$261,600 and HK\$273,600) respectively. The remaining director did not receive any emolument for the year ended 31st December 2004 and 31st December 2003. No directors waived or agreed to waive any emoluments during the year ended 31st December 2004 and 31st December 2003.

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

## Notes to the Financial Statement

### 10. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (cont'd)

- (b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2004 include two (2003: two) directors whose emoluments are reflected in the analysis presented above. The aggregate emoluments paid and payable to the remaining three (2003: three) individuals during the year are as follows:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Salaries, allowances and benefits in kind	<u><b>676,984</b></u>	<u>750,600</u>

- (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 (2003: Nil).

### 11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December 2004 is based on the Group's net loss for the year of HK\$5,795,742 (2003: HK\$39,631,286) and on 600,000,000 (2003: 600,000,000) ordinary shares in issue during the year.

For the year ended 31st December 2004 and 31st December 2003, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and outstanding convertible note as disclosed in note 26 since their exercise would result in a decrease in loss per share.

## Notes to the Financial Statement

### 12. PROPERTY, PLANT AND EQUIPMENT

#### The Group

	Land use rights and buildings 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 2004	9,844,641	60,202	77,352,654	2,918,814	353,224	90,529,535
Additions	—	—	1,179,186	74,148	—	1,253,334
Transfer from assets under construction (Note 13)	216,966	—	61,215	—	—	278,181
At 31st December 2004	<u>10,061,607</u>	<u>60,202</u>	<u>78,593,055</u>	<u>2,992,962</u>	<u>353,224</u>	<u>92,061,050</u>
Depreciation, amortisation and impairment						
At 1st January 2004	999,721	30,101	65,452,972	1,946,387	267,495	68,696,676
Charge for the year	461,485	15,051	1,802,388	438,737	22,267	2,739,928
At 31st December 2004	<u>1,461,206</u>	<u>45,152</u>	<u>67,255,360</u>	<u>2,385,124</u>	<u>289,762</u>	<u>71,436,604</u>
Net book values						
At 31st December 2004	<u>8,600,401</u>	<u>15,050</u>	<u>11,337,695</u>	<u>607,838</u>	<u>63,462</u>	<u>20,624,446</u>
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>



## 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 buildings <i>HK\$</i>	Leasehold improve- ments <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
At 31st December 2004						
At cost	—	60,202	78,593,055	2,992,962	353,224	81,999,443
At valuation (Note (b))	<u>10,061,607</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,061,607</u>
	<u>10,061,607</u>	<u>60,202</u>	<u>78,593,055</u>	<u>2,992,962</u>	<u>353,224</u>	<u>92,061,050</u>
At 31st December 2003						
At cost	—	60,202	77,352,654	2,918,814	353,224	80,684,894
At valuation (Note (b))	<u>9,844,641</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,844,641</u>
	<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>

*Notes:*

- (a) The Group's land use rights and buildings are located in the PRC under medium lease terms.
- (b) The Group's land use rights and buildings were valued by independent firm of professional valuer, Malcolm & Associates Appraisal Limited, at 31st December 2004 on the existing use open market value basis. This valuation gave no change to the carrying amount of the land use rights and buildings.
- (c) The carrying amount of the Group's land use rights and buildings would have been HK\$5,259,962 (2003: HK\$5,402,316) had they been stated at cost less accumulated depreciation.
- (d) At 31st December 2004, the net book value of motor vehicles includes an amount of HK\$63,462 (2003: HK\$85,729) in respect of assets held under finance leases.
- (e) At 31st December 2004, the Group's land use rights and buildings with an aggregate net book value of HK\$8,600,401 (2003: HK\$8,844,920) were pledged as security to secure bank loans.

## Notes to the Financial Statement

### 13. ASSETS UNDER CONSTRUCTION

#### The Group

At Cost	Buildings HK\$	Plant and machinery HK\$	Total HK\$
At 1st January 2003	346,638	2,719,347	3,065,985
Additions	255,918	1,403,860	1,659,778
Transfer to property, plant and equipment	(346,638)	—	(346,638)
Impairment loss recognised in the income statement	(38,952)	(4,061,992)	(4,100,944)
	<u>216,966</u>	<u>61,215</u>	<u>278,181</u>
At 31st December 2003	216,966	61,215	278,181
Additions	362,300	—	362,300
Transfer to property, plant and equipment (Note 12)	(216,966)	(61,215)	(278,181)
	<u>362,300</u>	<u>—</u>	<u>362,300</u>
At 31st December 2004	<u>362,300</u>	<u>—</u>	<u>362,300</u>

### 14. INTERESTS IN SUBSIDIARIES

	2004 HK\$	2003 HK\$
Unlisted shares, at cost	<b>10,392,027</b>	10,392,027
Amounts due from subsidiaries	<b>59,434,470</b>	51,532,415
	<u>69,826,497</u>	<u>61,924,442</u>
Less: Allowances for amounts due from subsidiaries	<b>(46,094,158)</b>	(40,308,158)
	<u>23,732,339</u>	<u>21,616,284</u>

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

## Notes to the Financial Statement

### 14. INTERESTS IN SUBSIDIARIES (cont'd)

Details of subsidiaries held by the Company at 31st December 2004 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
<b><i>Interest held directly:</i></b>				
Oriental Light (Holdings) Limited	British Virgin Islands	Investing holding/ Hong Kong	25,000,000 shares of HK\$1 each	100%
<b><i>Interest held indirectly:</i></b>				
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%

## 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: (cont'd)</i>				
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 and trading of ferrules/PRC	Total registered capital being US\$7,100,000 of which US\$7,083,120 (2003: 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.

### 15. INVENTORIES

	THE GROUP	
	2004 HK\$	2003 HK\$
Raw materials and consumables	1,326,750	1,353,745
Work-in-progress	4,399,928	2,102,424
Finished goods	5,295,535	4,245,482
	<u>11,022,213</u>	<u>7,701,651</u>

At 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,582,068 (2003: HK\$3,435,030).

## Notes to the Financial Statement

### 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 :

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$</i>	<i>HK\$</i>
Current	<b>6,708,178</b>	2,654,057
31 — 60 days	<b>2,543,559</b>	1,698,166
61 — 90 days	<b>2,054,383</b>	750,072
Over 90 days	<b>1,028,053</b>	4,978,763
	<u><b>12,334,173</b></u>	<u>10,081,058</u>

### 17. PLEDGED BANK DEPOSITS

At 31st December 2004, bank deposits of the Group of HK\$1,942,642 (2003: HK\$2,290,899) 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 2004, included in the Group's bank balances and cash were amounts of approximately HK\$454,000 (2003: HK\$863,000), 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.

### 19. TRADE PAYABLES AND BILLS PAYABLE

The age analysis of trade payables is stated as follows :

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<i>HK\$</i>	<i>HK\$</i>
Current	<b>3,718,880</b>	343,909
31 — 60 days	<b>1,788,284</b>	1,420,686
61 — 90 days	<b>662,998</b>	1,509,400
Over 90 days	<b>3,189,380</b>	3,691,264
	<u><b>9,359,542</b></u>	<u>6,965,259</u>
Bills payable	<u>—</u>	<u>2,571,970</u>
	<u><b>9,359,542</b></u>	<u>9,537,229</u>

## Notes to the Financial Statement

### 19. TRADE PAYABLES AND BILLS PAYABLE (cont'd)

All bills payable are matured within one year.

At 31st December 2004, included in the Group's trade payables was amount of approximately HK\$1,138,000 (2003: HK\$2,972,000) which is unsecured and bears interest at 3% per annum.

### 20. AMOUNT DUE TO A DIRECTOR

The amount is unsecured and interest free and has no fixed repayment terms.

### 21. OBLIGATIONS UNDER FINANCE LEASES

#### THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Amounts payable under finance leases:				
Within one year	<b>360,866</b>	376,328	<b>338,418</b>	334,832
In the second to fifth year inclusive	<b>236,017</b>	596,883	<b>231,135</b>	569,553
	<b>596,883</b>	973,211	<b>569,553</b>	904,385
Less: future finance charges	<b>(27,330)</b>	(68,826)	<b>N/A</b>	N/A
Present value of lease obligations	<b>569,553</b>	904,385	<b>569,553</b>	904,385
Less: Amount due for settlement within 12 months (shown under current liabilities)			<b>(338,418)</b>	(334,832)
Amount due for settlement after 12 months			<b>231,135</b>	569,553

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 2004, the average effective borrowing rate was 5.5% (2003: 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\$554,710 (2003: HK\$861,049) were under unlimited corporate guarantee provided by the Company.

## Notes to the Financial Statement

### 22. BORROWINGS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>
Bank loans, secured	7,276,373	8,236,664
Other loans, secured	<u>605,385</u>	<u>1,355,703</u>
	<u><b>7,881,758</b></u>	<u>9,592,367</u>
The original maturity of the above bank and other loans is as follows:		
On demand or within one year	7,881,758	8,408,215
More than one year, but not exceeding two years	<u>—</u>	<u>1,184,152</u>
	<u><b>7,881,758</b></u>	<u>9,592,367</u>
Less : Amounts due within one year shown under current liabilities	<u>(7,881,758)</u>	<u>(8,408,215)</u>
	<u><b>—</b></u>	<u>1,184,152</u>

At 31st December 2004, the bank loans of HK\$3,837,947 (2003: HK\$4,446,664) were secured by the Group's land use rights and leasehold properties with an aggregate net book value of HK\$8,600,401 (2003: HK\$8,844,920) and the bank loan of HK\$3,438,426 (2003: HK\$3,790,000) was secured by bank deposits. All the bank loans were under the unlimited corporate guarantee provided by the Company.

At 31st December 2004, the other loans of HK\$605,385 (2003: HK\$1,355,703) were secured by the Group's plant and machinery.

### 23. SHARE CAPITAL

	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	<u><b>1,000,000,000</b></u>	<u>1,000,000,000</u>
Issued and fully paid:		
600,000,000 ordinary shares of HK\$0.10 each	<u><b>60,000,000</b></u>	<u>60,000,000</u>

There was no movement of share capital during both years.

## Notes to the Financial Statement

### 24. RESERVES

#### THE COMPANY

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
At 1st January 2003	1,796,747	(2,155,981)	(359,234)
Net loss for the year	—	(38,258,264)	(38,258,264)
At 31st December 2003	1,796,747	(40,414,245)	(38,617,498)
Net loss for the year	—	(5,782,657)	(5,782,657)
At 31st December 2004	1,796,747	(46,196,902)	(44,400,155)

The Company has no reserves (2003: nil) available for distribution at 31st December 2004.

### 25. DEFERRED TAX

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 2003	(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	(484,228)	1,614,011	540,223	1,670,006
Credited (charged) to the income statement for the year (Note 8)	22,763	(1,152,546)	(540,223)	(1,670,006)
At 31st December 2004	(461,465)	461,465	—	—

At 31st December 2004, the Group has total tax losses of approximately HK\$7,883,000 (2003: HK\$3,940,000) available for offset against future profits. As at 31st December 2004, no deferred tax asset has been recognised of such losses due to the unpredictability of future profit streams. As at 31st December 2003, a deferred tax asset had been recognised in respect of approximately HK\$3,252,000. The unrecognised tax losses of approximately HK\$4,668,000 (2003: nil) may be carried forward indefinitely. The unrecognised tax losses of approximately HK\$3,215,000 (2003: HK\$688,000) will expire before 2009.



## Notes to the Financial Statement

### 25. DEFERRED TAX *(cont'd)*

At 31st December 2004, the Group has deductible temporary differences of approximately HK\$39,016,000 (2003: HK\$32,527,000). 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.

### 26. CONVERTIBLE NOTE

On 2nd January 2004, the Company issued a convertible note of US\$1 million (equivalent to 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.

### 27. 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	
	2004	2003	2004	2003
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within one year	160,512	93,632	2,100	12,600
In the second to fifth year inclusive	93,632	—	—	2,100
	<u>254,144</u>	<u>93,632</u>	<u>2,100</u>	<u>14,700</u>

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

At 31st December 2004, the Company had no commitments under operating leases (2003: Nil).

## Notes to the Financial Statement

---

### 28. CAPITAL COMMITMENTS

At 31st December 2004, the Group and the Company had no capital commitments. At 31st December 2003, the Group had capital commitments approximately of HK\$6,981,000 contracted but not provided for in respect of the purchases and construction of property, plant and equipment.

### 29. MAJOR NON-CASH TRANSACTION

During the year ended 31st December 2003, the Group entered into finance leases arrangement in respect of assets with a total capital value at the inception of the finance lease of HK\$1,044,348.

### 30. CONTINGENT LIABILITIES

At 31st December 2004, the Group had no material contingent liabilities (2003: Nil).

The Company provided an unlimited corporate guarantee for banking facilities of subsidiaries aggregating to HK\$9,624,710 (2003: HK\$10,025,279), of which HK\$7,831,083 (2003: HK\$9,097,713) was utilised at 31st December 2004.

### 31. 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.

## Notes to the Financial Statement

### 31. SHARE OPTION SCHEME (cont'd)

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

	<b>Number of options</b>	
	<b>2004</b>	2003
At the beginning and the end of year	<b>60,000,000</b>	60,000,000

The share options outstanding at 31st December 2004 and 2003 have the following terms:

Category	Date of grant	Expiry date	Exercise price <i>HK\$</i>	<b>Number of options</b>	
				<b>2004</b>	2003
Directors	6th June 2002	6th June 2012	0.158	<b>49,000,000</b>	49,000,000
Employees	6th June 2002	6th June 2012	0.158	<b>11,000,000</b>	11,000,000
				<b>60,000,000</b>	60,000,000

No share options were granted, exercised or cancelled during both years.

### 32. RELATED PARTY TRANSACTIONS

Apart from the related party transactions as disclosed in notes 20 and 26, the Group entered into the following transactions with related parties during the year:

- (i) The sales of optoelectronic products of HK\$6,037 (2003: HK\$559,507) to the subsidiary of OMAX Technologies, Inc., a substantial shareholder, were carried at market price.
- (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 (2003: HK\$3,900,000). Mr. Liao Ko Ping also provided an unlimited guarantee to a bank to secure general banking facilities granted to a subsidiary. As at 31st December 2004, the amount utilised by the subsidiary amounted to approximately HK\$3,838,000 (2003: HK\$4,447,000).
- (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.

## Financial Summary

	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$	2000 HK\$
Results					
Turnover	<u>50,887,480</u>	<u>47,119,920</u>	<u>44,165,820</u>	<u>45,393,083</u>	<u>49,104,906</u>
Net (loss) profit for the year	<u>(5,795,742)</u>	<u>(39,631,286)</u>	<u>(3,387,995)</u>	<u>773,497</u>	<u>1,329,841</u>
Total assets	<u>48,912,260</u>	<u>47,290,702</u>	<u>83,823,285</u>	<u>92,874,756</u>	<u>36,592,883</u>
Total liabilities	<u>33,312,013</u>	<u>25,894,713</u>	<u>22,796,010</u>	<u>28,459,486</u>	<u>40,995,049</u>
Net assets (liabilities)	<u>15,600,247</u>	<u>21,395,989</u>	<u>61,027,275</u>	<u>64,415,270</u>	<u>(4,402,166)</u>