FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東 光 集 團 有 限 公 司 *

Incorporated in the Cayman Islands with limited liability

Stock code : 8150

ANNUAL REPORT 2005

*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.

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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. Chin Chang Ming, *Chairman* Ms. Sun Hsi Chen 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

CORPORATE INFORMATION

Hong Kong branch share registrar and transfer office	Abacus Share Registrars Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Auditors	CWCC *Certified Public Accountants*
Stock code	8150

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Fast Systems Technology (Holdings) Limited (the "Company") will be held at Unit No. 7-8, 10th Floor, Grand City Plaza, Nos. 1-17 Sai Lau Kok Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 14th June 2006 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 2005;

2. (a) to re-elect Mr. Chin Chang Ming as independent non-executive director of the Company;

   (b) to re-elect Ms. Sun Hsi Chen as independent non-executive director of the Company;

   (c) to re-elect Mr. Liao Lien Shen as executive director of the Company;

   (d) to re-elect Mr. Liao Ko Ping as executive director of the Company;

   (e) 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, 19th May 2006

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*
Chin Chang Ming, *Independent Non-executive Director*
Sun Hsi Chen, *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.

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 26th Floor, Tesbury Centre, 28 Queen's Road East, 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 12th June 2006 (Monday) to 14th June 2006 (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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 9th June 2006 (Friday).

CHAIRMAN'S STATEMENT

Last year, the Group concentrated its effort to further develop its watch distribution division and the increase in sales generated from the watch distribution division was encouraging. Overall sales increased by 33.7% in 2005.

However, sales of sapphire watch crystal to the Swiss market dropped drastically. The Group was able to increase its sales of sapphire watch crystal to Hong Kong customers to partially offset this adverse effect. Overall sales of sapphire watch crystal in 2005 reduced by 16.6% to HK$29.2 million.

During 2005, the optoelectronic products division was able to achieve sale of HK$7.0 million even though the market price of ferrules is still under pressure. In addition, we are able to attract premium customer who is willing to pay higher price for quality products.

The watch distribution division recorded sales of HK$31.8 million in 2005, representing an increase of 276% over 2004. The Group will further develop its watch distribution business with more models of watches offered and focusing on higher profit contribution items.

Finally, 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 their hard work and dedication in the past year.

Liao Lien Shen
Chairman

Hong Kong, 15th May 2006

FINANCIAL REVIEW

Total turnover of the Group for the year ended 31st December 2005 amounted to HK$68,036,351, representing a 33.7% increase from that of HK$50,887,480 generated in the year ended 31st December 2004.

Sapphire watch crystals division

Turnover generated from Swiss customers decreased to HK$11,599,333, representing a 50.2% decrease from that of HK$23,270,130 generated in the year ended 31st December 2004. Sales to customers in Taiwan reduced drastically to HK$747,879, representing a 47.4% decrease from that of HK$1,420,601 in the year ended 31st December 2004. However, turnover from Hong Kong customers increased to HK$16,878,780 in the year ended 31st December 2005, representing 62.8% increase from that of HK$10,369,884 generated in the year ended 31st December 2004.

The turnover of the sapphire watch crystals for the year ended 31st December 2005 decreased by HK$5,834,623, cost of sales of the sapphire watch crystals during the same period decreased to HK$25,102,554 from that of HK$29,303,577 in the year ended 31st December 2004. Gross profit margin for the division decreased to approximately 14.1% in the year ended 31st December 2005 from 16.4% in the year ended 31st December 2004. The decrease in gross profit margin was primarily attributable to reduced sales in 2005.

Watch distribution division

Sales generated from watch distribution division in 2005 increased by HK$23,319,185 to HK$31,770,416, representing 275.9% increase from that of HK$8,451,231 for the year ended 31st December 2004. Cost of sales for the corresponding periods were HK$25,559,753 and HK$5,270,613 respectively. Gross profit margin for the division in 2005 and 2004 were 19.5% and 31.8% respectively. Higher discount was offered to generate more sales in 2005.

Optoelectronics products division

Sales of ferrules was HK$7,039,943 for the year ended 31st December 2005, decreased by HK$335,691 or 4.6% decrease from that of HK$7,375,634 in the year ended 31st December 2004. Cost of sales for the corresponding periods were HK$7,005,437 and HK$7,393,149 respectively.

Other revenue

Other revenue for the year ended 31st December 2005 amounted to HK$25,610, representing 1,761% increase from that of HK$1,376 generated in the year ended 31st December 2004. Training subsidy of HK$15,414 was received in 2005 (2004: Nil). Interest income generated increased by HK$7,314 in 2005. The increase in interest income reflected the higher unused cash in 2005.

Selling and marketing costs, administrative and other operating expenses
Selling and marketing costs for the year ended 31st December 2005 totalled HK$4,234,683. This represents an increase of HK$1,313,582 from that recorded in the year ended 31st December 2004. The increase in selling and marketing costs was a result of higher advertising costs for the watch distribution division in 2005.

Total administrative expenses was HK$6,301,451 for the year ended 31st December 2005 and HK$6,915,683 for the year ended 31st December 2004. Reduction in administrative expenses was mainly due to reduced bad debt cost from HK$654,206 in 2004 to nil in 2005.

Other operating expenses was HK$3,117,611 (2004: HK$1,944,569), representing an increase of HK$1,266,467. Service centre cost for the watch distribution division in 2005 increased by HK$1,213,607.

Financial resources and liquidity
The Group's shareholders funds was reduced to HK$8,026,617 as at 31st December 2005 (2004: HK$12,348,143) due to loss incurred in 2005 and the retrospective adjustments of adopting the new accounting standard. Current assets amounted to HK$16,220,937 as at 31st December 2005 (2004: HK$27,925,514), of which HK$1,359,292 (2004: HK$1,041,457) was cash and cash equivalents.

As at 31st December 2005, the Group total borrowings amounted to approximately HK$11,514,655 (2004: HK$18,163,886), of which HK$7,758,372 was denominated in US dollar and the remaining balances was denominated in Hong Kong dollars. As at 31st December 2005, HK$7,865,356 (2004: HK$7,881,758) 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 2005 was 143% (2004: 147%) and 0% (2004: 64%) respectively.

Foreign currency risk
During the year under review, around HK$11.6 million of the Groups sales are denominated in Swiss Francs while around HK$10.6 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 2005, the Group had 206 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 2005 was HK$7,060,421 (2004: HK$6,674,304).

Major acquisitions

During the year, the Group acquired additions to fixed assets and incurred additions to assets under construction totalling HK$23,979 (2004: HK$1,615,634), for furniture and fixtures and 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 2005.

Segmental information

An analysis of the Group's for the year by principal activities and geographical segments is set out in note 7 to the financial statements 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 2005 decreased by HK$5,834,623, cost of sales of the sapphire watch crystals during the same period decreased to HK$25,102,554 from that of HK$29,303,577 in the year ended 31st December 2004. Gross profit margin for the division decreased to approximately 14.1% in the year ended 31st December 2005 from 16.4% in the year ended 31st December 2004. The decrease in gross profit margin was primarily attributable to reduced sales.

The watch distribution division generated sales of HK$31,770,416 in 2005 (2004: HK$$8,451,231) and the gross profit margin was 19.5% (2004: 31.8%). Higher discount was offered to generate more sales in 2005.

During 2005, the ferrules division generated sales of HK$7,039,943 (2004: 7,375,634).

PROSPECTS

The Board expects that the demand for synthetic sapphire watch crystals will remain weak for 2006.

Price for standard ferrules is still under pressure and management will further develop the specialized ferrules niche market, which offer better price and less competition. In addition, ceramic watch parts will be produced using the technical know-how and equipments from the optoelectronics products division.

The Board expects sales of watches in Taiwan shall improve with more watch models and no further discount to generate more sales in 2006.

Save for the non-establishment of the remuneration committee, 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.

DIRECTORS' SECURITIES TRANSACTION

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 2005.

REMUNERATION OF DIRECTORS

No remuneration committee was established as management believe it a waste of corporate resources to establish this committee while the total directors' remuneration and benefits for 3 executive directors amounted to less than HK$550,000 in 2005. If any executive director wish to review his remuneration package, a remuneration committee comprises non-executive directors will be established to make recommendation to the Board of the Company's policy and structure for all remuneration of Directors.

BOARD OF DIRECTORS

The board of the Company (the "Board") currently comprises six Directors, of which three are executive directors and three are independent non-executive directors.

Executive Directors

Liao Lien Shen, *(Chairman)*
Liao Ko Ping *(Chief Executive Officer)*
Liao Chin Te

Independent Non-executive Directors

Chin Chang Ming
Sun Hsi Chen
Lam Ngai Ming

The Board has four scheduled meetings at quarterly interval and meets as and when required. During the year ended 31st December 2005, the Board held three meetings as the meeting to deal with the annual results announcement was delayed and combined with the meeting to deal with the first quarterly results announcement of 2005.

The attendance of the Directors at the meetings is as follows:

Directors	**Number of attendance**
Liao Lien Shen	0/3
Liao Ko Ping	3/3
Liao Chin Te	0/3
Tam Yeung Kai, Vicko (resigned on 28th February 2006)	3/3
Mr. Cheng, Isaac (resigned on 28th February 2006)	2/3
Chin Chang Ming (appointed on 12th May 2006)	0
Sun Hsi Chen (appointed on 12th May 2006)	0
Lam Ngai Ming	1/3

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.

Two independent non-executive directors, namely Mr. Tam Yeung Kai, Vicko, Mr. Cheng, Isaac resigned on 28th February 2006. A new audit committee was formed upon the appointment of two new independent non-executive directors on 12th May 2006 and the new audit committee comprises three independent non-executive directors, namely Mr. Chin Chang Ming, Ms. Sun His Chen and Mr. Lam Ngai Ming. The chairman of the audit committee is Mr. Chin Chang Ming.

The Group's financial statements for the year ended 31st December 2005 have been reviewed by the new audit committee. Save for the qualification noted by the auditors, the new 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.

During the year ended 31st December 2005, the audit committee held three meetings.

The attendance of the Directors at the meetings is as follows:

Directors	Number of attendance
Tam Yeung Kai, Vicko (resigned on 28th February 2006)	3/3
Mr. Cheng, Isaac (resigned on 28th February 2006)	2/3
Chin Chang Ming (appointed on 12th May 2006)	0
Sun Hsi Chen (appointed on 12th May 2006)	0
Lam Ngai Ming	1/3

AUDITORS' REMUNERATION

During the year, the remuneration paid to the auditors of the Company is as follows:

	Fee paid/payable
	HK$'000
Audit services rendered	328
Non-audit services rendered	10

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board appointed Mr. Liao Lien Shen as the chairman and Mr. Liao Ko Ping as chief executive officer. Mr. Liao Ko Ping is the son of Mr. Liao Lien Shen. The roles of the chairman and the chief executive officer are segregated and not exercised by the same individual.

The Directors submit their report together with the audited financial statements for the year ended 31st December 2005.

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 18 to the financial statements.

An analysis of the Group's for the year by principal activities and geographical segments is set out in note 7 to the financial statements.

RESULTS

Details of the audited results of the Group for the year ended 31st December 2005 are set out in the consolidated income statement on page 24.

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 27 and note 30 to the financial statements 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 15 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December 2005 the Company's distributable reserves balance was nil (2004: nil).

SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December 2005 are set out in note 18 to the financial statements.

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 72.

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DIRECTORS

Executive Directors

Mr. LIAO Lien Shen, aged 68, 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 43, 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 40, 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. Lam Ngai Ming, aged 37, 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.

Mr. Chin Chang Ming, aged 45, was graduated from Soochow University of Taiwan in 1986 with a bachelor degree in business administration and from Taiwan University in 2002 with a master degree in accounting. Mr. Chin became a qualified accountant in Taiwan in 1992 and has been worked in major banks in Taiwan. He is currently working with TrustNet United CPAs Firm as a qualified accountant. He is appointed as an independent non-executive Director with effect from 12th May 2006.

Ms. Sun Hsi Chen, aged 46, graduated from the department of public administration of Tam Kang University of Taiwan in 1983. Ms. Sun has been worked with Canbran group and is currently the person-in-charge of Hong Kong Canbran International Limited. She is appointed as an independent non-executive Director with effect from 12th May 2006.

Mr. TAM Yeung Kai, Vicko, aged 49, 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. He resigned on 28th February 2006.

Mr. Cheng, Isaac, aged 46, 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. He resigned on 28th February 2006.

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 Group's business to which the Company was a party and in which any of the Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions, which also constitute related party transactions and are set out in note 35 to the financial statements.

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 Januray 2005	Convertible note issued during the year	Convertible Note held at 31st December 2005	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

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 Januray 2005	Options granted during the year	Options held at 31st December 2005	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, 2005, 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

		No. of Shares held				
Name of Director	*Note*	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total**
Mr. Liao Lien Shen	*1*	—	—	80,000,000	—	80,000,000
Mr. Liao Ko Ping	*2*	11,233,336	—	195,000,000	—	206,233,336

Notes:

1. 80,000,000 Shares are held by Grandford Holdings Limited which is wholly owned by Mr. Liao Lien Shen.
2. 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 2005, 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 2005, 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 2005, 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 2005, 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.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

—	the largest customer	47%
—	five largest customers	71%

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

—	the largest supplier	31%
—	five largest suppliers	74%

None of the directors, their associates or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's share capital) had an interest in any of the Group's five largest customers and suppliers for the year ended 31st December 2005.

SENIOR MANAGEMENT

Mr. WONG Chi Wing *CGA, ACMA*, aged 46, 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 2005.

COMPETING INTERESTS

During the year ended 31st December 2005, 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.

AUDITORS

PricewaterhouseCoopers and Chan, Wong, Chung & Co. (now practicing under the name of CWCC) acted as joint auditors of the Company for the year ended 31st December 2002.

Deloitte Touche Tohmatsu and CWCC acted as joint auditors of the Company for both the year ended 31st December 2003 and 31st December 2004.

On 1st December 2005, Deloitte Touche Tohmatsu resigned as joint auditors of the Company and CWCC remains as sole auditors of the Company.

The financial statements for the year ended 31st December 2005 have been audited by CWCC, 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, 15th May 2006

AUDITORS' REPORT

TO THE MEMBERS OF FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 71 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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. However, the evidence available to us was limited as follows:

(1) Included in the cost of sales in the consolidated income statement for the year ended 31st December 2005 is cost of sales for watch distribution in Taiwan amounting to HK$25,559,853. We have not been provided with inventory record to support that the amounts included in the cost of sales were related to inventories purchased. According to the Group's management representation, it was due to insufficient information provided by the watch distribution agent in Taiwan. As such we have not been able to obtain sufficient evidence to satisfy ourselves that the watch distribution segment's revenue of HK$31,770,416, cost of sales of HK$25,559,853, inventories of HK$237,786 and trade receivables of HK$3,429,679 included in the financial statements were free from material misstatement.

(2) Included in the consolidated balance sheet as at 31st December 2005 are property, plant and equipment amounting to HK$14,932,257 held by certain subsidiaries. Included in the Company's balance sheet as at 31st December 2005 are interests in those subsidiaries holding the property, plant and equipment amounting to HK$18,350,661. We have not been provided with sufficient information to assess whether the Group's provision for impairment of property, plant and equipment as determined by the directors is adequate. Accordingly, we were unable to satisfy ourselves as to whether the respective carrying amounts of the Group's property, plant and equipment, and the Company's interest in those subsidiaries as at 31st December 2005 are fairly stated.

Any adjustment that might have been found to be necessary in respect of the matters noted in each of points above would have a consequential impact on the assets of the Company and of the Group as at 31st December 2005, and the loss and cash flows of the Group for the year then ended, and the related disclosures thereof in the financial statements.

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$7,758,372 which will mature on 30th June 2006, as disclosed in note 27 to the financial statements, and to meet in full its financial obligations as they fall due, as well as the funding requirements for its daily operation. 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 obtain such future fundings. 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 significance of each of the possible effects of the scope limitations as set out in the "Basis of opinion" section and the "Fundamental uncertainty relating to the going concern basis" section of this report, 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 of the Group as at 31st December 2005 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work as set out in the "Basis of opinion" section of this report :

(i) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and

(ii) we are unable to determine whether proper books of accounts have been kept.

CWCC
Certified Public Accountants

Hong Kong, 15th May 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Turnover	7	**68,036,351**	50,887,480
Cost of sales		**(58,379,185)**	(42,366,076)
Gross profit		**9,657,166**	8,521,404
Other gains	8	**25,610**	1,376
Selling and marketing costs		**(4,234,683)**	(2,921,101)
Administrative expenses		**(6,301,451)**	(6,915,683)
Other operating expenses		**(3,117,611)**	(1,944,569)
Impairment loss recognized in respect of property, plant and equipment		**(93,425)**	—
Operating loss	9	**(4,064,394)**	(3,258,573)
Finance costs	12	**(1,072,429)**	(1,158,285)
Loss before income tax		**(5,136,823)**	(4,416,858)
Income tax expenses	13	**63,789**	(1,369,233)
Loss for the year attributable to equity holders of the Company		**(5,073,034)**	(5,786,091)
Loss per share			
Basic and diluted	14	**(HK0.85 cent)**	(HK0.96 cent)

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Non-current assets			
Property, plant and equipment	15	**14,932,257**	16,737,133
Assets under construction	16	**—**	362,300
Land use rights	17	**511,216**	509,637
		15,443,473	17,609,070
Current assets			
Inventories	19	**4,045,177**	11,022,213
Trade receivables	20	**9,719,723**	12,334,173
Deposits, prepayments and other receivables		**936,338**	1,461,766
Tax recoverable		**79,795**	123,263
Pledged bank deposits	21	**80,612**	1,942,642
Cash and cash equivalents	22	**1,359,292**	1,041,457
		16,220,937	27,925,514
Current liabilities			
Trade payables	23	**6,889,733**	9,359,542
Other payables, deposits received and accruals		**4,186,661**	4,448,888
Amount due to a director	24	**—**	2,038,147
Loan from a related company	25	**106,984**	—
Tax payable		**1,046,744**	1,214,125
Obligations under finance leases	26	**232,459**	338,418
Convertible note	27	**7,758,372**	—
Borrowings — repayable within one year	28	**—**	7,881,758
		20,220,953	25,280,878
Net current (liabilities)/assets		**(4,000,016)**	2,644,636
Total assets less current liabilities		**11,443,457**	20,253,706
Capital and reserves			
Share capital	29	**60,000,000**	60,000,000
Reserves		**(51,973,383)**	(47,651,857)
		8,026,617	12,348,143
Non-current liabilities			
Loan from a related company	25	**3,416,840**	—
Obligations under finance leases	26	**—**	231,135
Convertible note	27	**—**	7,674,428
		3,416,840	7,905,563
		11,443,457	20,253,706

Liao Lien Shen
Director

Liao Ko Ping
Director

BALANCE SHEET

As at 31st December 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Non-current assets			
Interests in subsidiaries	*18*	**18,350,661**	23,732,339
Current assets			
Deposits, prepayments and other receivables		**150,000**	—
Tax recoverable		**79,795**	8,995
Cash and cash equivalents		**10,413**	10,413
		240,208	19,408
Current liabilities			
Other payables, deposits received and accruals		**275,400**	351,902
Convertible note	*27*	**7,758,372**	—
		8,033,772	351,902
Net current liabilities		**(7,793,564)**	(332,494)
Total assets less current liabilities		**10,557,097**	23,399,845
Capital and reserves			
Share capital	*29*	**60,000,000**	60,000,000
Reserves	*30*	**(49,442,903)**	(44,274,583)
		10,557,097	15,725,417
Non-current liability			
Convertible note	*27*	**—**	7,674,428
		10,557,097	23,399,845

Liao Lien Shen
Director

Liao Ko Ping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2005

	Share capital HK$	Share premium HK$	Exchange reserve HK$	Contributed surplus HK$	Revaluation reserve HK$	Convertible note reserve HK$	Accumulated losses HK$	Total HK$
At 1st January 2004, as previously stated	60,000,000	1,796,747	—	14,607,973	3,136,795	—	(58,145,526)	21,395,989
Effect of change in accounting policies *(Note 3A)*	—	—	—	—	(3,136,795)	—	(335,398)	(3,472,193)
At 1st January 2004, as restated	60,000,000	1,796,747	—	14,607,973	—	—	(58,480,924)	17,923,796
Loss for the year	—	—	—	—	—	—	(5,786,091)	(5,786,091)
Recognition of equity component of convertible note *(Note 3A)*	—	—	—	—	—	210,438	—	210,438
At 31st December 2004, as restated	60,000,000	1,796,747	—	14,607,973	—	210,438	(64,267,015)	12,348,143
Loss for the year	—	—	—	—	—	—	(5,073,034)	(5,073,034)
Exchange difference on translation of the accounts of foreign subsidiaries	—	—	751,508	—	—	—	—	751,508
At 31st December 2005	**60,000,000**	**1,796,747**	**751,508**	**14,607,973**	**—**	**210,438**	**(69,340,049)**	**8,026,617**

The contributed surplus of the Group arose from the Group reorganisation in 2001.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2005

	2005	2004
	HK$	*HK$*
		(Restated)
Cash flows from operating activities		
Operating loss	**(4,064,394)**	(3,258,573)
Adjustments for:		
Bad debts written off	**—**	654,206
Depreciation and amortisation	**2,583,074**	2,651,594
Impairment loss recognized in respect of property, plant and equipment	**93,425**	—
Impairment losses on slow-moving inventories	**835,600**	1,397,635
Inventories written off	**1,389,291**	1,859,823
Interest income	**(8,690)**	(1,376)
Changes in working capital	**828,306**	3,303,309
— Inventories	**4,752,145**	(6,578,020)
— Trade receivables	**2,614,450**	(2,253,115)
— Deposits, prepayments and other receivables	**525,428**	(868,746)
— Trade payables	**(2,469,809)**	(177,687)
— Other payables, deposits received and accruals	**(262,227)**	(44,155)
Cash generated from/(used in) operations	**5,988,293**	(6,618,414)
Interest paid	**(988,485)**	(1,073,419)
Hong Kong profits tax refunded	**62,200**	422,237
Overseas taxation paid	**(122,324)**	—
Net cash generated from/(used in) operating activities	**4,939,684**	(7,269,596)
Cash flows from investing activities		
Interest income	**8,690**	1,376
Purchases of property, plant and equipment	**(23,979)**	(1,253,334)
Additions of assets under construction	**—**	(362,300)
Decrease in pledged bank deposits	**1,862,030**	348,257
Net cash generated from/(used in) investing activities	**1,846,741**	(1,266,001)
Cash flows from financing activities		
New bank loan raised	**—**	1,538,426
(Decrease)/Increase in amount due to a director	**(2,038,147)**	2,038,147
Loan from a related company	**3,523,824**	—
Proceeds from issue of convertible note	**—**	7,800,000
Repayments of bank borrowings	**(7,881,758)**	(3,249,035)
Repayments of obligations under financial leases	**(337,094)**	(334,832)
Net cash (used in)/generated from financing activities	**(6,733,175)**	7,792,706
Net increase/(decrease) in cash and cash equivalents	**53,250**	(742,891)
Effect of foreign exchange rate changes	**264,585**	(6,183)
Cash and cash equivalents at the beginning of the year	**1,041,457**	1,790,531
Cash and cash equivalents at the end of the year	**1,359,292**	1,041,457
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**1,359,292**	1,041,457

1. GENERAL INFORMATION

Fast Systems Technology (Holdings) Limited ("the Company") was incorporated in Cayman Islands on 18th January 2001 as an exempted company with limited liability under the Company Law (Revised) of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 10th August 2001. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section to the annual report.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of synthetic sapphire watch crystals and optoelectronic products and distributing watches. Its subsidiaries have manufacturing plants in the People's Republic of China (the "PRC") and sells mainly in Europe, Hong Kong, Taiwan and the PRC.

These financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Company and its subsidiaries (together referred to as "the Group") in light of the Group having net current liabilities of HK$4,000,016 as at 31st December 2005 and having net losses during the year of HK$5,073,034. In particular, the convertible note amounting to HK$7,758,372 that has been included in current liabilities will be matured on 30th June 2006. The directors of the Company are currently exploring various options for providing additional equity fundings to the Group. Provided that such additional equity fundings can be secured, 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 HKFRSs AND CHANGES IN ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), the collective term of which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

3. ADOPTION OF HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(continued)*

In the current year, the HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas:

(a) Leasehold interest in land use rights (HKAS 17, Leases)

In previous years, leasehold interest in land use rights and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3A for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

(b) Convertible Note (HKAS 32, Financial Instruments: Disclosure and Presentation)

The principal impact of HKAS 32 on the Group is in relation to convertible note issued by the Company that contain both liability and equity components. Previously, convertible note was stated at face value and classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortized cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. Comparative profit and loss for 2004 has also been restated in order to reflect the increase in effective interest on the liability component (see Note 3A for the financial impact).

3. ADOPTION OF HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Employee Share Option Scheme (HKFRS 2, Share-based payment)

In prior years, no amount was recognised when employees (which term includes directors) were granted share options to subscribe for shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the consolidated income statements, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

The application of this new accounting policy, which requires retrospective application, has no material effect on the recognition and measurement of share-based payment of the Group. The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7th November 2002 and all options granted to employees after 7th November 2002 but which had vested before 1st January 2005.

As all existing outstanding options of the Company were granted before 7th November 2002, the adoption of HKFRS 2 has no effect on the financial statements of the Group.

3. ADOPTION OF HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(continued)*

(d) New HKFRSs that have been issued but not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]

1 Effective for annual periods beginning on or after 1st January 2007.
2 Effective for annual periods beginning on or after 1st January 2006.
3 Effective for annual periods beginning on or after 1st December 2005.
4 Effective for annual periods beginning on or after 1st March 2006.

The Group is still assessing the impact of these standards, amendments and interpretations on its results of operations and financial position. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

3A. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	(Increase)/ Decrease in loss **2005** *HK$*	2004 *HK$*
Effect of adopting HKAS 17		
Decrease in depreciation	**104,004**	107,271
Increase in amortisation of land use rights	**(13,122)**	(12,754)
Effect of adopting HKAS 32		
Increase in finance costs	**(83,944)**	(84,866)
	6,938	9,651

The cumulative effects of the application of the new HKFRSs on the financial statements are summarized below:

Year ended 31st December 2004

	(Originally stated) As at 31.12.2004 *HK$*	Retrospective adjustments HKAS 17 *HK$*	HKAS 32 *HK$*	(Restated) As at 31.12.2004 *HK$*
Property, plant and equipment	20,624,446	(3,887,313)	—	16,737,133
Land use rights	—	509,637	—	509,637
Convertible note	(7,800,000)	—	125,572	(7,674,428)
Other assets and liabilities	2,775,801	—	—	2,775,801
Net assets	15,600,247	(3,377,676)	125,572	12,348,143
Share capital	60,000,000	—	—	60,000,000
Revaluation reserve	3,136,795	(3,136,795)	—	—
Convertible note reserve	—	—	210,438	210,438
Accumulated losses	(63,941,268)	(240,881)	(84,866)	(64,267,015)
Other reserves	16,404,720	—	—	16,404,720
Total equity	15,600,247	(3,377,676)	125,572	12,348,143

3A. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES *(continued)*

The financial effects of the changes in accounting policies to the total equity on 1st January 2004 are summarized below:

	(Originally stated) As at 1.1.2004	Retrospective adjustments of adopting HKAS 17	(Restated) As at 1.1.2004
	HK$	*HK$*	*HK$*
Share capital	60,000,000	—	60,000,000
Revaluation reserve	3,136,795	(3,136,795)	—
Convertible note reserve	—	—	—
Accumulated losses	(58,145,526)	(335,398)	(58,480,924)
Other reserves	16,404,720	—	16,404,720
Total equity	21,395,989	(3,472,193)	17,923,796

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared using the historical cost basis, except for certain properties and financial instruments which are measured at revalued amounts or fair values.

4.1 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.2 Subsidiaries

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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

4.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

4.4 Revenue recognition

(a) Sales of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment.

(b) Interest income

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

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.5 Foreign currencies

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.5 Foreign currencies *(continued)*

(c) Group companies *(continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4.6 Employee benefits

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiaries, which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government in Mainland China. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.6 Employee benefits *(continued)*

Share-based payments

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

4.7 Leases (the Group as lessee)

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognized in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.8 Property, plant and equipment

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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Fair value is determined by the Directors based on independent valuations which are performed periodically. The valuations are on the basis of depreciated replacement cost. Depreciated replacement cost is used as open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the buildings and adjustment is made where they consider that there has been a material change.

Any revaluation increase arising on revaluation of 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 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:

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. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.8 Property, plant and equipment *(continued)*

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

4.9 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.

4.10 Land use rights

All land in the PRC is the stated-owned or collectively-owned and no individual land ownership rights exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised on a straight line basis over the period of the rights.

4.11 Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized 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 a 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4.13 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

4.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

4.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.16 Borrowings *(continued)*

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

4.17 Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversation option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

The liability component is subsequently carried at amortised cost. The interest expense recognised in income statements on the liability component is calculated using the effective interest method. The equity component will remain in the convertible note reserve until either the note is converted or redeemed.

If the note is converted, the convertible note reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible note reserve is released directly to retained earnings.

4.18 Leased 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.19 Income tax

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 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 items that are never taxable and deductible.

Deferred tax is recognized 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 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 to 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

4.20 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 amortized on a straight-line basis over its useful life and carried at cost less subsequent accumulated amortization and any accumulated impairment losses.

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

4.21 Provisions and contingent liabilities

Provision are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remove. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

5. FINANCIAL RISK MANAGEMENT *(continued)*

Risk management is carried out by the Managing Director under policies approved by the Board of Directors. The Managing Director identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Foreign exchange risk

The major currencies the Group is exposed to include mainly Swiss Franc (CHF), Euro (EUR), United States dollars (US$), Japanese Yen (JPY) , Reniminbi (RMB) and Taiwan dollar (NTD). Whilst US$ and HK$ are pegged, the Group is exposed to foreign currency risk of CHF, EUR, JPY, RMB and NTD. The Managing Director closely monitors the Group's foreign exchange risk arising from future commercial transactions. If the exchange risk is considered to be high, the Managing Director will consider using forward contract to hedge the risk.

(b) Price risk

The Group is exposed to high level of commodity price risk because of fierce competition especially in business of optoelectronic and watch crystal products.

(c) Credit risk

Except for trade receivables from the watch distributor in Taiwan, the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Trade receivables from the agent in Taiwan are setting off with the expenses paid by the agent in Taiwan on behalf of the Group. The credit risk is considered to be relatively low.

(d) Liquidity risk

The Group maintained cash in hand and at bank of HK$1,359,292 at 31st December 2005 (2004: HK$1,041,457). The Group had net current liabilities of approximately HK$4,000,016 as at 31st December 2005, after taking into account the convertible note amounting to HK$7,758,372 as disclosed in note 27 that will be matured on 30th June 2006. The liquidity risk is considered to be relatively high.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Assessment of impairment of non-current assets

The Group tests annually whether non-current assets has suffered any impairment based on their value in use or their net selling price.

(b) Unrecognition of deferred tax assets

Deferred tax assets have not been recognized in respect of the net effect of tax losses, accelerated accounting depreciation and restated convertible note as, in the opinion of Directors, the realization of the related tax benefit through future profit streams is unpredictable.

(c) Measurement of convertible bonds

On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in the shareholders' equity. The splitting of the liability and equity components requires an estimation of the market interest rate.

(d) Fair value

The fair value of receivables, bank balances, payables and accruals, current borrowings, provision and convertible notes are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

7. 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 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.

7. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS *(continued)*

Priminary reporting format — business segments

Year ended 31st December 2005

	Synthetic sapphire watch crystals *HK$*	Optoelectronic products *HK$*	Watch distribution *HK$*	Consolidated *HK$*
Sales	29,225,992	7,039,943	31,770,416	68,036,351
Segment results	(1,482,787)	(708,011)	1,244,355	(946,443)
Interest and other income				25,610
Unallocated expenses				(3,143,561)
Loss from operations				(4,064,394)
Finance costs				(1,072,429)
Loss before taxation				(5,136,823)
Income tax expenses				63,789
Loss for the year				(5,073,034)
Segment assets	17,006,649	4,309,381	3,667,465	24,983,495
Unallocated assets				6,680,915
Total assets				31,664,410
Segment liabilities	(7,094,779)	(3,471,070)	(68,329)	(10,634,178)
Unallocated liabilities				(13,003,615)
Total liabilities				(23,637,793)
Capital expenditure	—	23,979	—	
Depreciation and amortisation	1,837,990	114,046	—	
Impairment losses on slow-moving inventories	835,600	—	—	
Inventories written off	—	1,389,291	—	

Segment assets did not include land use rights and buildings of HK$511,216 and HK$4,500,000 respectively (2004: land use rights, buildings and leasehold property under construction of HK$509,637, HK$4,713,088 and HK$362,300 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.

7. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS *(continued)*

Priminary reporting format — business segments *(continued)*

Year ended 31st December 2004 (restated)

	Synthetic sapphire watch crystals *HK$*	Optoelectronic products *HK$*	Watch distribution *HK$*	Consolidated *HK$*
Sales	35,060,615	7,375,634	8,451,231	50,887,480
Segment results	1,625,877	(1,136,580)	(65,930)	423,367
Interest income				1,376
Unallocated expenses				(3,683,316)
Loss from operations				(3,258,573)
Finance costs				(1,158,285)
Loss before taxation				(4,416,858)
Income tax charge				(1,369,233)
Loss for the year				(5,786,091)
Segment assets	26,988,724	5,416,435	4,421,988	36,827,147
Unallocated assets				8,707,437
Total assets				45,534,584
Segment liabilities	6,518,758	5,370,270	1,336,690	(13,225,718)
Unallocated liabilities				(19,960,723)
Total liabilities				(33,186,441)
Capital expenditure	397,174	856,160	—	
Depreciation and amortisation	2,184,068	94,375	—	
Bad debts written off	654,206	—	—	
Impairment losses on slow-moving inventories	1,397,635	—	—	
Inventories written off	—	1,859,823	—	

7. TURNOVER, BUSINESS AND GEOGRAPHIC SEGMENTS *(continued)*

Secondary reporting format — geographical segments

	Segment turnover *HK$*	Segment assets *HK$*	Segment capital expenditure *HK$*
Year ended 31st December 2005			
Europe	**11,599,333**	**1,910,456**	**—**
Hong Kong	**16,878,780**	**4,732,740**	**—**
Taiwan	**34,159,367**	**4,728,529**	**—**
The PRC	**5,398,871**	**20,292,685**	**23,979**
Total	**68,036,351**	**31,664,410**	**23,979**
Year ended 31st December 2004 (restated)			
Europe	23,270,130	4,122,628	—
Hong Kong	10,369,884	7,909,537	—
Taiwan	12,815,708	5,807,091	—
The PRC	4,431,758	27,695,328	1,615,634
Total	50,887,480	45,534,584	1,615,634

8. OTHER GAINS

	2005 *HK$*	2004 *HK$*
Interest income	**8,690**	1,376
Other gains	**16,920**	—
	25,610	1,376

9. OPERATING LOSS

	2005	2004
	HK$	*HK$*
		(Restated)
Operating loss is stated after charging the following:		
Amortisation of land use rights	**13,122**	12,754
Auditors' remuneration		
— audit services	**328,000**	390,000
— non-audit services	**10,000**	10,000
Bad debts written off	**—**	654,206
Cost of inventories sold	**56,638,265**	41,164,046
Depreciation and amortisation of property, plant and machinery		
— owned assets	**2,569,952**	2,616,573
— assets under finance leases	**—**	22,267
Impairment losses on slow-moving inventories (included in cost of sales)	**835,600**	1,397,635
Inventories written off (included in cost of sales)	**1,389,291**	1,859,823
Net exchange loss	**260,896**	301,572
Operating lease rentals		
— land and buildings	**161,971**	136,644
— other property, plant and equipment	**2,100**	12,600
Research and development costs (included in cost of sales, excluding staff costs)	**184,079**	294,756
Staff costs including directors' remuneration *(Notes (a) and 10)*	**7,060,421**	6,674,304

Note:

(a) Of the total staff costs, HK$635,395 (2004: HK$679,531) was attributed to research and development activities of the Group.

10. STAFF COSTS INCLUDING DIRECTORS' REMUNERATION

	2005	2004
	HK$	*HK$*
Wages, salaries and other benefits	**6,856,786**	6,496,056
Retirement benefit costs		
— The PRC *(Note (a))*	**167,135**	149,793
— Hong Kong *(Note (b))*	**36,500**	28,455
	7,060,421	6,674,304

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 2005, there were no outstanding contributions payable to the Provincial Scheme (2004: 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 2005, contributions of HK$3,175 (2004: HK$2,800) were payable to the MPF Scheme and were included in accrued charges and other payables.

11. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

(a) The remuneration of every Director for the year ended 31st December 2005 is set out as follows:

Name of Director	**Fee**	**Salaries**	**Employer's contribution to pension scheme**	**Total**
	HK$	***HK$***	***HK$***	***HK$***
Liao Lien Shen	**—**	**261,600**	**—**	**261,600**
Liao Ko Ping	**—**	**261,600**	**12,000**	**273,600**
Liao Chin Te	**—**	**—**	**—**	**—**
Tam Yeung Kai, Vicko *(Note)*	**60,000**	**—**	**—**	**60,000**
Cheng Isaac *(Note)*	**60,000**	**—**	**—**	**60,000**
Lam Ngai Ming	**60,000**	**—**	**—**	**60,000**
	180,000	**523,200**	**12,000**	**715,200**

Note: Resigned on 28th February 2006.

The remuneration of every Director for the year ended 31st December 2004 is set out as follows:

Name of Director	Fee	Salaries	Employer's contribution to pension scheme	Total
	HK$	*HK$*	*HK$*	*HK$*
Liao Lien Shen	—	283,400	—	283,400
Liao Ko Ping	—	283,400	12,000	295,400
Liao Chin Te	—	—	—	—
Tam Yeung Kai, Vicko	60,000	—	—	60,000
Cheng Isaac	60,000	—	—	60,000
Lam Ngai Ming	42,800	—	—	42,800
	162,800	566,800	12,000	741,600

11. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS *(continued)*

(b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2005 include two (2004: two) directors whose emoluments are reflected in the analysis presented above. The aggregate emoluments paid and payable to the remaining three (2004: three) individuals during the year are as follows:

	2005	2004
	HK$	*HK$*
Salaries, allowances and benefits in kind	**642,000**	651,184
Employer's contribution to pension scheme	**24,500**	25,800
	666,500	676,984

(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 (2004: Nil).

12. FINANCE COSTS

	2005	2004
	HK$	*HK$*
		(Restated)
Interest on:		
Bank and other loans wholly repayable within five years	**201,813**	526,310
Loan from a related company *(Note 25)*	**297,000**	—
Convertible note	**551,434**	547,816
Finance leases	**22,182**	41,874
Trade payables	**—**	42,285
	1,072,429	1,158,285

13. INCOME TAX EXPENSES

(a) The amount of income tax credited/(charged) to the consolidated income statement represent:

	2005	2004
	HK$	*HK$*
Current tax:		
Hong Kong profits tax *(Note (i))*	**—**	—
Other regions in the PRC *(Note (ii))*	**(209,626)**	—
	(209,626)	—
Over/(Under) provision in prior years:		
Hong Kong	**394,210**	147,209
Other regions in the PRC	**(120,795)**	153,564
	273,415	300,773
Deferred tax	**—**	(1,670,006)
	63,789	(1,369,233)

Notes:

(i) Hong Kong profits tax was provided for at the rate of 17.5% (2004: 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.

13. INCOME TAX EXPENSES *(continued)*

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

	2005	2004
	HK$	*HK$*
		(Restated)
Loss before income tax	**5,136,823**	4,416,858
Tax at the average income tax rate of 17.3% (2004: 17.3%)	**886,733**	765,697
Tax effect of expenses not deductible for tax purpose	**(220,011)**	(332,099)
Tax effect of income not taxable for tax purpose	**1,199**	46,098
Overprovision in respect of prior years	**273,415**	300,773
Tax effect of tax losses/deferred tax assets not recognised	**(877,547)**	(2,149,702)
Tax credit/(charge) for the year	**63,789**	(1,369,233)

The average income tax rates for the year ended 31st December 2005 and the year ended 31st December 2004 represent the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of loss before income tax and the relevant statutory rates.

14. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December 2005 is based on the Group's net loss for the year of HK$5,073,034 (2004: HK$5,786,091) and on the total number of 600,000,000 (2004: 600,000,000) ordinary shares in issue during the year.

For the year ended 31st December 2005 and 31st December 2004 respectively, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options as disclosed in note 34 and the outstanding convertible note as disclosed in note 27 respectively. This is because their exercise would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost or valuation						
At 1 January 2004	5,598,954	60,202	77,352,654	2,918,814	353,224	86,283,848
Additions	—	—	1,179,186	74,148	—	1,253,334
Transfer from assets under construction *(Note 16)*	216,966	—	61,215	—	—	278,181
At 31st December 2004	5,815,920	60,202	78,593,055	2,992,962	353,224	87,815,363
Additions	—	—	13,221	10,758	—	23,979
Transfer from assets under construction *(Note 16)*	362,300	—	—	—	—	362,300
Exchange difference	167,766	—	2,178,411	107,413	10,189	2,463,779
Eliminated on revaluation	(1,845,986)	—	—	—	—	(1,845,986)
At 31st December 2005	4,500,000	60,202	80,784,687	3,111,133	363,413	88,819,435
Accumulated depreciation, amortisation and impairment						
At 1 January 2004	742,435	30,101	65,452,972	1,946,387	267,495	68,439,390
Charge for the year	360,397	15,051	1,802,388	438,737	22,267	2,638,840
At 31st December 2004	1,102,832	45,152	67,255,360	2,385,124	289,762	71,078,230
Charge for the year	617,916	15,049	1,635,246	278,831	22,910	2,569,952
Impairment	93,425	—	—	—	—	93,425
Exchange difference	31,813	—	1,890,074	61,312	8,358	1,991,557
Eliminated on revaluation	(1,845,986)	—	—	—	—	(1,845,986)
At 31st December 2005	—	60,201	70,780,680	2,725,267	321,030	73,887,178
Net book values						
At 31st December 2005	**4,500,000**	**1**	**10,004,007**	**385,866**	**42,383**	**14,932,257**
At 31st December 2004	4,713,088	15,050	11,337,695	607,838	63,462	16,737,133

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	Buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 31st December 2005						
At cost	**—**	**60,202**	**80,784,687**	**3,111,133**	**363,413**	**84,319,435**
At valuation *(Note (b))*	**4,500,000**	**—**	**—**	**—**	**—**	**4,500,000**
	4,500,000	**60,202**	**80,784,687**	**3,111,133**	**363,413**	**88,819,435**
At 31st December 2004						
At cost	—	60,202	78,593,055	2,992,962	353,224	81,999,443
At valuation *(Note (b))*	5,815,920	—	—	—	—	5,815,920
	5,815,920	60,202	78,593,055	2,992,962	353,224	87,815,363

Notes:

(a) The Group's buildings are located in the PRC under medium lease terms.

(b) The Group's buildings were revalued by an independent firm of professional valuer, Malcolm & Associates Appraisal Limited at 31st December 2005 on the depreciated replacement cost approach basis.

At 31st December 2004, the Group's and use rights and leasehold properties were valued by Malcolm & Associates Appraisal Limited on the existing use open market value basis.

(c) The carrying amount of the Group's buildings would have been HK$4,593,426 (2004: HK$4,713,088) had they been stated at cost less accumulated depreciation.

(d) At 31st December 2005, no motor vehicles held under finance leases. At 31st December 2004, the net book value of motor vehicles included an amount of HK$63,462 in respect of assets held under finance leases.

(e) At 31st December 2005, the Group's buildings together with the related land use rights *(note 17(d))* with an aggregate net book values of HK$4,500,000 (2004: HK$4,713,088) and HK$511,216 (2004: HK$509,637) respectively were pledged as security to secure bank loans.

16. ASSETS UNDER CONSTRUCTION

The Group

	Buildings *HK$*	Plant and machinery *HK$*	Total *HK$*
At 1st January 2004	216,966	61,215	278,181
Additions	362,300	—	362,300
Transfer to property, plant and equipment *(Note 15)*	(216,966)	(61,215)	(278,181)
At 31st December 2004	362,300	—	362,300
Transfer to property, plant and equipment *(Note 15)*	(362,300)	—	(362,300)
At 31st December 2005	**—**	**—**	**—**

17. LAND USE RIGHTS

The Group's interest in land use rights represented prepaid lease payments and their net carrying value are analysed as follows:

	HK$
Cost	
At 1st January 2004 and 31st December 2004	637,710
Exchange difference	18,396
At 31st December 2005	656,106
Accumulated amortisation	
At 1st January 2004	115,319
Amortisation for the year	12,754
At 31st December 2004	128,073
Amortisation for the year	13,122
Exchange difference	3,695
At 31st December 2005	144,890
Net carrying value	
At 31st December 2005	**511,216**
At 31st December 2004	509,637

17. LAND USE RIGHTS *(continued)*

Notes:

(a) The Group's land use rights are related to a piece of land situated in the PRC and are held under medium term leases that are to be expired on 14th October 2043.

(b) At 31st December 2005, the Group's land use rights together with the buildings *(note 15(e))* with net book values of HK$511,216 (2004: HK$509,637) and HK$4,500,000 (2004: HK$4,713,088) respectively were pledged as security to secure bank loans.

18. INTERESTS IN SUBSIDIARIES

	2005	2004
	HK$	*HK$*
Unlisted shares, at cost	**10,392,027**	10,392,027
Amounts due from subsidiaries	**59,125,792**	59,434,470
	69,517,819	69,826,497
Less: Impairment losses on amounts due from subsidiaries	**(51,167,158)**	(46,094,158)
	18,350,661	23,732,339

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

18. INTERESTS IN SUBSIDIARIES *(continued)*

Details of subsidiaries held by the Company at 31st December 2005 are as follows:

Name	Place of incorporation or establishment	Principal activities/ place of operation	Particulars of issued and paid up share capital/ registered capital	Equity interest held
Interest held directly:				
Oriental Light (Holdings) Limited	The British Virgin Islands ("the BVI")	Investing holding/ Hong Kong	25,000,000 shares of HK$1 each	100%
Interest held indirectly:				
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) Company Limited	The PRC#	Manufacturing of synthetic sapphire watch crystals/PRC	Total registered capital being HK$35,500,000 of which HK$35,500,000 (2004: HK$33,000,000) being paid up	100%
Fast Systems Limited	The BVI	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	The BVI	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 Company Limited	The PRC#	Manufacturing and trading of ferrules/ PRC	Total registered capital being US$7,100,000 of which US$7,100,000 (2004: US$7,083,120) 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.

19. INVENTORIES

The Group

	2005 HK$	2004 HK$
Raw materials and consumables	**75,748**	1,326,750
Work-in-progress	**2,089,425**	4,399,928
Finished goods	**1,880,004**	5,295,535
	4,045,177	11,022,213

At 31st December 2005, the carrying amount of inventories that are carried at net realisable value amounted to HK$1,283,198 (2004: HK$2,582,068).

20. TRADE RECEIVABLES

The Group's terms on credit sales 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 as follows:

The Group

	2005 HK$	2004 HK$
Current	**5,611,089**	6,708,178
31 — 60 days	**1,471,895**	2,543,559
61 — 90 days	**1,537,099**	2,054,383
Over 90 days	**1,099,640**	1,028,053
	9,719,723	12,334,173

21. PLEDGED BANK DEPOSITS

At 31st December 2005, bank deposits of the Group of HK$80,162 (2004: HK$1,942,642) were pledged as security for trade finance facility of the Group (2004: short-term bank loan and trade finance facility).

22. CASH AND CASH EQUIVALENTS

At 31st December 2005, included in the Group's cash and cash equivalents were amounts of approximately HK$384,000 (2004: HK$454,000), 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.

23. TRADE PAYABLES

The age analysis of trade payables is stated as follows:

The Group

	2005	2004
	HK$	*HK$*
Current	**977,200**	3,718,880
31 — 60 days	**1,066,779**	1,788,284
61 — 90 days	**263,722**	662,998
Over 90 days	**4,582,032**	3,189,380
	6,889,733	9,359,542

At 31st December 2005, no trade payables was interest bearing. At 31st December 2004, included in the Group's trade payables was amount of approximately HK$1,138,000 which is unsecured and bears interest at 3% per annum.

24. AMOUNT DUE TO A DIRECTOR

The amount due to a director is interest-free, unsecured and has no fixed terms of repayments.

25. LOAN FROM A RELATED COMPANY

The Group

	2005	2004
	HK$	*HK$*
Loan from a related company *(Note a)*	**3,523,824**	—
Less: Amount due within one year shown under current liabilities	**(106,984)**	—
	3,416,840	—

(a) Loan from a related company is unsecured, repayable by various monthly instalments up to January 2015 and bears interest at 8.25% per annum.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
The Group	**2005**	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Amounts payable under finance leases:				
Within one year	**240,055**	360,866	**232,459**	338,418
In the second to fifth year inclusive	**—**	236,017	**—**	231,135
	240,055	596,883	**232,459**	569,553
Less: future finance charges	**(7,596)**	(27,330)	**N/A**	N/A
Present value of lease obligations	**232,459**	569,553	**232,459**	569,553
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(232,459)**	(338,418)
Amount due for settlement after 12 months			**—**	231,135

26. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

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 2005, the average effective borrowing rate was 5.5% (2004: 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$232,459 (2004: 554,710) were under unlimited corporate guarantee provided by the Company.

27. 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 proceeds of HK$7.8 million from the issue of the convertible note was 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.

The proceeds received from the issue of the convertible note have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	2005 ***HK$***	2004 *HK$* (Restated)
Liability component at the beginning of the year	**7,674,428**	—
Nominal value of convertible notes issued	**—**	7,800,000
Equity component	**—**	(210,438)
Liability component at date of issue	**—**	7,589,562
Interest charged	**551,434**	547,816
Interest paid	**(467,490)**	(462,950)
Liability component at the end of the year	**7,758,372**	7,674,428
Less: Amount due within one year shown under current liabilities	**(7,758,372)**	—
Amount due after one year	**—**	7,674,428

27. CONVERTIBLE NOTE *(continued)*

The interest charged for the year is calculated by applying an effective interest rate of 7.2% (2004: 7.2%) to the liability component.

The directors estimate the fair value of the liability component of the convertible note at 31st December 2005 to approximately its carrying value.

28. BORROWINGS

The Group

	2005	2004
	HK$	*HK$*
Bank loans, secured	—	7,276,373
Other loans, secured	—	605,385
	—	7,881,758
The original maturity of the above bank and other loans is as follows:		
On demand or within one year	—	7,881,758
More than one year, but not exceeding two years	—	—
	—	7,881,758
Less: Amounts due within one year shown under current liabilities	—	(7,881,758)
Amounts due after one year	—	—

At 31st December 2005, the Group had no borrowings.

At 31st December 2004, the bank loans of HK$3,837,947 were secured by the Group's interests in land use rights and buildings with an aggregate net book value of HK$509,637 and HK$4,713,088 and the bank loan of HK$3,438,426 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 were secured by the Group's plant and machinery.

29. SHARE CAPITAL

	2005	2004
	HK$	*HK$*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000,000**	1,000,000,000
Issued and fully paid:		
600,000,000 ordinary shares of HK$0.10 each	**60,000,000**	60,000,000

There was no movement of share capital during both years.

30. RESERVES

The Company

	Share premium	**Convertible note reserves**	**Accumulated losses**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2004	1,796,747	—	(40,414,245)	(38,617,498)
Loss for the year	—	—	(5,782,657)	(5,782,657)
At 31st December 2004, as previously stated	1,796,747	—	(46,196,902)	(44,400,155)
Effect of adopting HKAS 32				
— recognition of equity component of convertible note	—	210,438	—	210,438
— increase in effective interest expense on convertible note	—	—	(84,866)	(84,866)
At 31st December 2004, as restated	1,796,747	210,438	(46,281,768)	(44,274,583)
Loss for the year	—	—	(5,168,320)	(5,168,320)
At 31st December 2005	1,796,747	210,438	(51,450,088)	(49,442,903)

The Company has no reserves (2004: nil) available for distribution at 31st December 2005.

31. DEFERRED TAXATION

At 31st December 2005, the Group has unused tax losses of approximately HK$12,110,000 (2004: HK$7,883,000) available for offset against future profits. No deferred tax asset has been recognised of such losses due to the unpredictability of future profit streams. The unrecognised tax losses of approximately HK$12,110,000 (2004: HK$4,668,000) may be carried forward indefinitely. During the year, an unrecognised tax losses at approximately HK$3,215,000 has expired.

At 31st December 2005, the Group has deductible temporary differences of approximately HK$31,047,000 (2004: HK$39,016,000). 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.

32. 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	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Within one year	**94,486**	160,512	**—**	2,100
In the second to fifth year inclusive	**—**	93,632	**—**	—
	94,486	254,144	**—**	2,100

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

At 31st December 2005, the Company had no commitment under operating leases (2004: Nil).

33. CONTINGENT LIABILITIES

At 31st December 2005, the Group had no material contingent liabilities (2004: Nil).

At 31st December 2005, the Company had no material contingent liabilities. At 31st December 2004, The Company provided an unlimited corporate guarantee for banking facilities of subsidiaries aggregating to HK$9,624,710, of which HK$7,831,083 was utilised at 31st December 2004.

34. SHARE OPTION SCHEME

By a written resolution of their 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.

34. SHARE OPTION SCHEME *(continued)*

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

	Number of options 2005	2004
At the beginning and the end of year	**60,000,000**	60,000,000

The share options outstanding at 31st December 2005 and 2004 have the following terms:

Category	Date of Grant	Expiry date	Exercise price *HK$*	Number of options 2005	2004
Directors	6th June 2002	6th June 2012	0.158	**49,000,000**	49,000,000
Employees	6th June 2002	6th June 2012	0.158	**11,000,000**	11,000,000
				60,000,000	60,000,000

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

35. RELATED PARTY TRANSACTIONS

Apart from the related party transactions as disclosed in note 27 to the financial statements, the Group entered into the following transactions with related parties during the year:

(i) The 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 (2004: 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 2005, none of the amount (2004: HK$3,838,000) was utilized by the subsidiary.

(ii) During both 2005 and 2004, a related company provided the trademarks and the distribution channel 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.

35. RELATED PARTY TRANSACTIONS *(continued)*

(iii) The interest expense charged by the related company during the year arose from its advances, further details of which, including the terms, are disclosed in notes 12 and 25 to the financial statements respectively.

(iv) Details of the balances with related parties are set out in the consolidated balance sheet, balance sheet and notes 24 and 25 to the financial statements.

(v) The remuneration of directors and other members of key management are disclosed in notes 10, 11 and 34 to the financial statements.

36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies to conform with the current year's presentation. Further details are disclosed in note 3 to the financial statements.

37. APPROVAL OF FINANAICAL STATEMENTS

The financial statements set out on pages 24 to 71 were approved by the board of directors on 15th May 2006.

Financial Summary

	2005	2004	2003	2002	2001
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Turnover	**68,036,351**	50,887,480	47,119,920	44,165,820	45,393,083
(Loss)/Profit for the year	**(5,073,034)**	(5,786,091)	(39,536,769)	(3,293,478)	802,617
Total assets	**31,664,410**	45,534,584	43,818,509	80,256,575	89,213,529
Total liabilities	**23,637,793**	33,186,441	25,894,713	22,796,010	28,459,486
Net assets	**8,026,617**	12,348,143	17,923,796	57,460,565	60,754,043