FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED
東 光 集 團 有 限 公 司 *
(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8150

2006
ANNUAL REPORT

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

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

Table of Contents

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. 5, 9th Floor Grand City Plaza Nos. 1-17 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong
Compliance officer	Mr. Liao Ko Ping
Company secretary	Mr. Yip Tai Him *FCCA, CPA*
Qualified accountant	Mr. Yip Tai Him *FCCA, CPA*
Authorised representatives	Mr. Liao Ko Ping
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	Cachet Certified Public Accountants Limited
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. 5, 9th Floor, Grand City Plaza, Nos. 1-17 Sai Lau Kok Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 9th May 2007 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 2006;

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

   (b) to re-elect Mr. Liao Chin Te as executive director of the Company;

   (c) to authorise the directors of the Company (the "Directors") to fix their remuneration;

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

By Order of the Board
Fast Systems Technology (Holdings) Limited
Yip Tai Him
Company Secretary

Hong Kong, 12th April 2007

Head office and principal place of business in Hong Kong:
Office Unit No. 5, 9th 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 7th May 2007 (Monday) to 9th May 2007 (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 4th May 2007 (Friday).

Chairman's Statement

Last year was a challenging year for the Group as the demand for sapphire watch crystal was weak while market price of ferrules is still under pressure. Overall sales decreased by 25.0% while sales from continuing operations decreased by 26.0% in 2006.

Although sales of sapphire watch crystal to the Swiss market increased by 34.1% to approximately HK$15.6 million, overall sales of sapphire watch crystal in 2006 reduced by 24.7% to HK$22.0 million as the Group focused its effort on higher profit margin orders.

During 2006, sales from the optoelectronic products division decreased to approximately HK$4.9 million. The market price of ferrules of, a key component of optoelectronic products, is still under pressure. The Group chose to work with some premium customers who were willing to pay higher price for quality products.

The watch distribution division recorded sales of approximately HK$24.2 million in 2006, representing a decrease of 23.9% over 2005. The watch distribution division was closed during December 2006.

The Group incurred heavy losses over last few years and the gearing ratio of the Group is high. One of the major shareholders of the Company has undertake to provide additional financial assistance to enable the Group to meet its daily operation need when necessary.

Finally, I would like to take this opportunity to thank our board of directors, shareholders, fellow directors, 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, 10 April 2007

FINANCIAL REVIEW

Total turnover of the Group for the year ended 31 December 2006 amounted to HK$51,044,070, representing a 25.0% decrease from that of HK$68,036,351 generated in the year ended 31 December 2005.

Turnover from Continuing Operations (i.e. sapphire watch crystals division and optoelectronic products division) for the year ended 31 December 2006 amounted to HK$26,854,774, representing a 26.0% decrease from that of HK$36,265,935 generated for the year ended 31 December 2005.

Sapphire watch crystals division

Turnover generated from Swiss customers increased to HK$15,558,271, representing a 34.1% increase from that of HK$11,599,333 generated in the year ended 31 December 2005. Sales to customers in Taiwan reduced drastically to HK$267,759, representing a 64.2% decrease from that of HK$747,879 in the year ended 31 December 2005. Turnover from Hong Kong customers decreased to HK$6,178,720 in the year ended 31 December 2006, representing 63.4% decrease from that of HK$16,878,780 generated in the year ended 31 December 2005.

The turnover of the sapphire watch crystals for the year ended 31 December 2006 decreased by HK$7,221,242, cost of sales of the sapphire watch crystals during the same period decreased to HK$19,340,425 from that of HK$25,102,554 in the year ended 31 December 2005. Gross profit margin for the division decreased to approximately 12.1% in the year ended 31 December 2006 from 14.1% in the year ended 31 December 2005. The decrease in gross profit margin was primarily attributable to reduced sales in 2006.

Optoelectronics products division

Sales of ferrules was HK$4,850,024 for the year ended 31 December 2006, decreased by HK$2,189,919 or 31.1% decrease from that of HK$7,039,943 in the year ended 31 December 2005. Cost of sales for the corresponding periods were HK$4,513,361 and HK$7,005,437 respectively.

Watch distribution division (Discontinued Operation)

Sales generated from watch distribution division in 2006 decreased by HK$7,581,120 to HK$24,189,296, representing 23.9% decrease from that of HK$31,770,416 for the year ended 31 December 2005. Cost of sales for the corresponding periods were HK$21,981,036 and HK$25,559,853 respectively. Gross profit margin for the division in 2006 and 2005 were 9.1% and 19.5% respectively. The watch distribution division was closed during December 2006 as management found it difficult to maintain control over the Taiwan agent. In addition, the fund required to run this operation was too high for the Company at its current level of financial resources. All watch inventories were disposed and this division were able to contribute a small profit to the Company.

Other revenue

Other revenue for the year ended 31 December 2006 amounted to HK$464,384, representing 1,713% increase from that of HK$25,610 generated in the year ended 31 December 2005. Tooling and moulding fee received in 2006 was HK$415,760 (2005: Nil). No training subsidy was received in 2006 (2005: HK$15,414). Interest income generated increased by HK$5,693 in 2006. The increase in interest income reflected the higher deposit interest rate in 2006.

Selling and distribution costs, administrative and other operating expenses for Continuing Operations

Selling and distribution costs for the year ended 31 December 2006 totalled HK$780,890. This represents a decrease of HK$459,095 from that recorded in the year ended 31 December 2005. The decrease in selling and distribution costs was a result of reduced transportation costs incurred in 2006.

Total administrative expenses were approximately HK$5,449,997 for the year ended 31 December 2006 and HK$6,301,451 for the year ended 31 December 2005. Reduction in administrative expenses was mainly due to reduction in technical consultant cost of HK$442,334 and recovery of bad debt previously written off of HK$251,884 in 2006.

Other operating expenses was approximately HK$1,171,154 (2005: HK$1,239,526), representing a decrease of HK$68,372. Legal and professional fees in 2006 increased by HK$591,906 and audit fee increased by HK$132,000 which was partially set off by the increase in exchange gain of HK$633,835.

Financial resources and liquidity

The Group's shareholders funds was reduced to HK$4,047,092 as at 31 December 2006 (2005: HK$8,026,617) due to loss incurred in 2006. Current assets amounted to HK$10,807,827 as at 31 December 2006 (2005: HK$16,220,937), of which HK$2,928,011 (2005: HK$1,359,292) was cash and bank balances.

As at 31 December 2006, the Group's total borrowings amounted to approximately HK$7,198,671 (2005: HK$11,514,655). As at 31 December 2006, HK$7,198,671 (2005: HK$8,097,815) were short-term borrowings repayable within one year. The short-term borrowings were secured by the Group's buildings together with the related land use rights with a net book value of HK$4,275,000 and HK$518,018 respectively.

The Group's gearing ratios, calculated based on total borrowings and shareholders' equity and bank borrowings over shareholders' equity, as at 31 December 2006 was 178% (2005: 143%) and 148% (2005: 0%) respectively.

Given the current position of high gearing ratio and low shareholders' equity, the Company had secured undertaking from its major shareholders to provide additional financial assistance as needed.

Foreign currency risk

During the year under review, around HK$15.6 million of the Groups sales were denominated in Swiss Francs while around HK$7.5 million of the Group's purchases were denominated in Euro/ Swiss Francs. There has not been significant changes in exchange rate between Swiss Francs and Euro. This kind of natural hedge helped to reduce the Groups exposure to foreign currency risk.

Management will monitor the exchange rate between Swiss Francs and Euro and the expected sales and purchase in foreign currency closely and enter into hedge contracts if necessary to reduce the Group's foreign currency risk.

Contingent liabilities

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

Employees

As at 31 December 2006, the Group had 199 employees. Employees were remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits included free accommodation at the Group's staff quarters in PRC and performance bonus. Total staff costs including directors' remuneration for 2006 was HK$5,726,690 (2005: HK$7,060,421).

Major acquisitions

During the year, the Group acquired additions to fixed assets and incurred additions to assets under construction totalling HK$33,160 (2005: HK$23,979), for office equipment and the sapphire watch crystal 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 31 December 2006. However, the Watch Distribution operation was terminated at the end of 2006.

Segmental information

An analysis of the Group's for the year by principal activities and geographical segments is set out in note 4 to the financial statements and further elaborated under "Financial Review" of this section.

BUSINESS REVIEW

The turnover of the sapphire watch crystals for the year ended 31 December 2006 decreased by HK$7,221,241, cost of sales of the sapphire watch crystals during the same period decreased to HK$19,340,425 from that of HK$25,102,554 in the year ended 31 December 2005. Gross profit margin for the division decreased to approximately 12.1% in the year ended 31 December 2006 from 14.1% in the year ended 31 December 2005. The decrease in gross profit margin was primarily attributable to reduced sales.

During 2006, the ferrules division generated sales of HK$4,850,024 (2005: 7,039,943).

The watch distribution division generated sales of HK$24,189,296 in 2006 (2005: HK$31,770,416) and the gross profit margin was 9.1% (2005: 19.5%). The watch distribution division was discontinued during the year.

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.

Watch distribution operation in Taiwan was terminated due to difficulty to maintain good control over the Taiwan agent.

CORPORATE GOVERNANCE

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 1 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 31 December 2006.

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 approximately HK$535,200 in 2006. If any executive director wish to review its remuneration package, a remuneration committee comprises non-executive directors will be established to make recommendation to the Board on 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 31 December 2006, 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 2006.

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 28 February 2006)	0/3
Mr. Cheng, Isaac (resigned on 28 February 2006)	0/3
Chin Chang Ming (appointed on 12 May 2006)	3/3
Sun Hsi Chen (appointed on 12 May 2006)	1/3
Lam Ngai Ming	3/3

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 28 February 2006. A new audit committee was formed upon appointed of two new independent non-executive directors on 12 May 2006 and the new audit committee comprises three independent non-executive directors, namely Mr. Chin Chang Ming, Ms. Sun Hsi Chen and Mr. Lam Ngai Ming. The chairman of the audit committee is Mr. Chin Chang Ming.

The Company's financial statements for the year ended 31st December 2006 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 31 December 2006, 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 28 February 2006)	0/3
Mr. Cheng, Isaac (resigned on 28 February 2006)	0/3
Chin Chang Ming (appointed on 12 May 2006)	3/3
Sun Hsi Chen (appointed on 12 May 2006)	1/3
Lam Ngai Ming	3/3

AUDITORS' REMUNERATION

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

	Fee paid/payable *HK$'000*
Audit services rendered	470
Non-audit services rendered	0

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 31 December 2006.

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 4 to the financial statements.

RESULTS

Details of the audited results of the Group for the year ended 31 December 2006 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 26 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 31 December 2006 the Company's distributable reserves balance was nil (2005: nil).

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2006 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 78.

DIRECTORS

Executive Directors

Mr. LIAO Lien Shen, aged 69, 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 44, 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 41, 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 38, 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 27 September 2004.

Mr. Chin Chang Ming, 46, 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 12 May 2006.

Ms. Sun Hsi Chen, 47, 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 12 May 2006.

Mr. TAM Yeung Kai, Vicko, aged 50, 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 1 August 2001. He resigned on 28 February 2006.

Mr. Cheng, Isaac, aged 47, 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 1 August 2001. He resigned on 28 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 Groups business to which the Company was a party and in which any of the Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions, which also constitute related party transactions and are set out in note 29 to the accounts.

Convertible note

On 2 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 2 January 2004 to the maturity date of 30 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 Convertible note of US$1 million was fully repaid on maturity.

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

The convertible note has been fully repaired upon its maturity on 30 June 2006.

OUTSTANDING SHARE OPTIONS

On 21 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 1 January 2006	Options granted during the year	Options held at 31 December 2006	Exercise price *HK$*	Grant Date	Exercisable from	Exercisable until
Liao Ko Ping	30,000,000	—	30,000,000	0.158	6 June 2002	6 June 2005	6 June 2012
Liao Lien Shen	19,000,000	—	19,000,000	0.158	6 June 2002	6 June 2005	6 June 2012
Continuous contract employees	11,000,000	—	11,000,000	0.158	6 June 2002	6 June 2005	6 June 2012

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2006, 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 31 December 2006, 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 31 December 2006, 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 31 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 31 December 2006, 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 its subsidiaries has purchased, sold, redeemed or cancelled any of the Company's shares during the year ended 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

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

—	the largest customer	42%
—	five largest customers	71%

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

—	the largest supplier	38%
—	five largest suppliers	67%

None of the directors, their associates or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's share capital) had an interest in any of the Groups five largest customers and suppliers for the year ended 31 December 2006.

SENIOR MANAGEMENT

Mr. Yip Tai Him FCCA, CPA, aged 36, has been appointed as the company secretary and qualified accountant of the Company with effect from 18 July 2006. Mr. Yip has over 15 years of experience in company secretary, accounting, auditing and financial management. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants.

COMPETING INTERESTS

During the year ended 31 December 2006, 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

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

On 1 December 2005, Deloitte Touche Tohmatsu resigned as joint auditors of the Company and CWCC remained as sole auditors of the Company for the audit of the financial statements for the year ended 31 December 2005.

On 20 December 2006, CWCC Certified Public Accountants resigned as auditors of the Company and Cachet Certified Public Accountants Limited were appointed with effect from 31 January 2007 to fill the casual vacancy.

The financial statements for the year ended 31 December 2006 have been audited by Cachet Certified Public Accountants Limited, 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, 10 April 2007

Cachet Certified Public Accountants Limited
德揚會計師事務所有限公司

To the shareholders
Fast Systems Technology (Holdings) Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements of Fast Systems Technology (Holdings) Limited (the "Company") set out on pages 24 to 77, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. 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.

AUDITORS' RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion, except for the scope limitation as below:

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2.1 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 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 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. Our report is not qualified in respect of the fundamental uncertainty relating to the going concern basis.

BASIS FOR QUALIFIED OPINION

Scope limitation — Prior year's audit scope limitation affecting opening balances

Included in the inventories and trade receivables at 31 December 2005 amounting to HK$237,786 and HK$3,429,679, respectively, were related to the business segment of watch distribution in Taiwan (the "Watch Distribution Segment"). The previous auditors were unable to obtain sufficient information so as to support the accuracy of inventories and trade receivables of HK$237,786 and HK$3,429,679, respectively, as at 31 December 2005 and had qualified their audit report accordingly. During the year, the Watch Distribution Segment had been discontinued and the related inventories and trade receivables were fully disposed of to a third party and fully settled, respectively. However, we have been unable to obtain the necessary information to enable us to determine the adjustment, if any, on the inventories and trade receivables should have been made in the previous year. Any adjustments to the inventories and trade receivables found to be necessary as at 31 December 2005 would affect the net assets at that date and the results for the year then ended and have a consequential effect on the results of the Group for the year ended 31 December 2006.

Scope limitation — audit scope limitation affecting the Group's property, plant and equipment and the Company's interests in subsidiaries

Included in the consolidated balance sheet as at 31 December 2006 are property, plant and equipment amounting to HK$12,924,872 held by certain subsidiaries (the "PPE Subsidiaries") of the Group. Included in the Company's balance sheet as at 31 December 2006 are interests in the PPE Subsidiaries amounting to HK$6,243,872. Except for a valuation on the Group's leasehold buildings performed by an independent professional valuer, we have not been provided with adequate information to assess whether the Group's impairment of property, plant and equipment as determined by the directors is adequate. Consequently, we have not been provided with adequate information to assess whether there was any impairment on the Company's interests in the PPE Subsidiaries as at 31 December 2006. Accordingly, we are 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 PPE Subsidiaries as at 31 December 2006 are fairly stated.

QUALIFIED OPINION ARISING FROM THE LIMITATION OF AUDIT SCOPE

In our opinion, except for any adjustments that might have been necessary had we been able to obtain information to satisfy ourselves as to the scope limitation as set out in the "Basis for Qualified Opinion" section above, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cachet Certified Public Accountants Limited
Certified Public Accountants

Chan Chi Yuen
Practising Certificate Number P02671

Hong Kong 10 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
CONTINUING OPERATIONS			
REVENUE	5	**26,854,774**	36,265,935
Cost of sales	6	**(24,254,245)**	(32,819,332)
Gross profit		**2,600,529**	3,446,603
Other income and gains	5	**464,384**	25,610
Selling and distribution costs		**(780,890)**	(1,239,985)
Administrative expenses		**(5,449,997)**	(6,301,451)
Other expenses		**(1,171,154)**	(1,239,526)
Finance costs	7	**(643,932)**	(1,072,429)
LOSS BEFORE TAX	6	**(4,981,060)**	(6,381,178)
Tax	10	**—**	63,789
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(4,981,060)**	(6,317,389)
DISCONTINUED OPERATION	11		
Profit for the year from discontinued operation		**408,260**	1,244,355
LOSS FOR THE YEAR		**(4,572,800)**	(5,073,034)
Attributable to:			
Equity holders of the Company	12	**(4,572,800)**	(5,073,034)
DIVIDENDS	13	**Nil**	Nil
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic			
— For loss for the year		**(0.76 cents)**	(0.85 cents)
— For loss from continuing operations		**(0.83 cents)**	(1.05 cents)
Diluted			
— For loss for the year		**N/A**	N/A
— For loss from continuing operations		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$	2005 HK$
Non-current assets			
Property, plant and equipment	15	**12,924,872**	14,932,257
Assets under construction	16	**11,407**	—
Prepaid land lease payments	17	**518,018**	511,216
		13,454,297	15,443,473
Current assets			
Inventories	19	**2,828,507**	4,045,177
Trade receivables	20	**3,844,394**	9,719,723
Prepayments, deposits and other receivables		**358,486**	936,338
Tax recoverable	10	**848,429**	79,795
Pledged bank deposits	21	**—**	80,612
Cash and cash equivalents	21	**2,928,011**	1,359,292
Total current assets		**10,807,827**	16,220,937
Current liabilities			
Trade payables	22	**4,172,713**	6,889,733
Other payables and accruals		**7,065,139**	4,186,661
Loan from a related company	23	**1,198,671**	106,984
Tax payable		**1,778,509**	1,046,744
Finance leases payable	24	**—**	232,459
Convertible note	25	**—**	7,758,372
Interest bearing bank borrowing, secured	26	**6,000,000**	—
Total current liabilities		**20,215,032**	20,220,953
Net current liabilities		**(9,407,205)**	(4,000,016)
Total assets less current liabilities		**4,047,092**	11,443,457
Non-current liabilities			
Loan from a related company	23	**—**	(3,416,840)
Net assets		**4,047,092**	8,026,617
Equity			
Issued capital	28	**60,000,000**	60,000,000
Reserves	30	**(55,952,908)**	(51,973,383)
Total equity		**4,047,092**	8,026,617

Liao Lien Shen
Director

Liao Ko Ping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Issued capital *HK$*	Share premium *HK$*	Exchange reserve *HK$*	Contributed surplus *HK$* *Note 30(a)*	Convertible note reserve *HK$*	Accumulated losses *HK$*	Total *HK$*
At 1 January 2005	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 31 December 2005	60,000,000	1,796,747	751,508	14,607,973	210,438	(69,340,049)	8,026,617
Transfer on redemption of convertible note	—	—	—	—	(210,438)	210,438	—
Loss for the year	—	—	—	—	—	(4,572,800)	(4,572,800)
Exchange difference on translation of the accounts of foreign subsidiaries	—	—	593,275	—	—	—	593,275
At 31 December 2006	60,000,000	1,796,747	1,344,783	14,607,973	—	(73,702,411)	4,047,092

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
from continuing operations		**(4,981,060)**	(6,381,178)
from discontinued operation		**408,260**	1,244,355
Adjustments for:			
Depreciation of property, plant and equipment	6	**2,453,875**	2,569,952
Amortisation of prepaid land lease payment	6	**13,647**	13,122
Impairment of property, plant and equipment	6	**—**	93,425
Impairment on slow-moving inventories	6	**—**	835,600
Write-down of inventories to net realisable value	6	**863,212**	1,389,291
Write-back of impairment of trade receivables	6	**(251,884)**	—
Finance costs	7	**643,932**	1,072,429
Interest income	5	**(14,383)**	(8,690)
Operating (loss)/profit before changes in working capital		**(864,401)**	828,306
Decrease in inventories		**353,458**	4,752,145
Decrease in trade receivables		**6,127,213**	2,614,450
Decrease in prepayments, deposits and other receivables		**577,852**	525,428
Decrease in trade payables		**(2,717,020)**	(2,469,809)
Increase/(decrease) in other payables and accruals		**2,878,478**	(262,227)
Cash generated from operations		**6,355,580**	5,988,293
Interest paid		**(602,304)**	(988,485)
Hong Kong profits tax refunded		**79,795**	62,200
Overseas taxes paid		**(132,323)**	(122,324)
Net cash inflow from operating activities		**5,700,748**	4,939,684
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**14,383**	8,690
Purchases of property, plant and equipment		**(145,695)**	(23,979)
Addition of assets under construction		**(11,407)**	—
Decrease in pledged bank deposits		**80,612**	1,862,030
Net cash (outflow)/inflow from investing activities		**(62,107)**	1,846,741
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amount due to a director		**—**	(2,038,147)
(Decrease)/increase loan from a related company	23	**(2,325,153)**	3,523,824
Redemption of convertible bonds	25	**(7,800,000)**	—
New bank loans		**6,000,000**	—
Repayment of bank loans		**—**	(7,881,758)
Capital element of finance lease rental payments	24	**(232,459)**	(337,094)
Net cash outflow from financing activities		**(4,357,612)**	(6,733,175)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,281,029**	53,250
Cash and cash equivalents at beginning of year		**1,359,292**	1,041,457
Effect of foreign exchange rate changes, net		**287,690**	264,585
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,928,011**	1,359,292

	Notes	2006 HK$	2005 HK$
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**2,928,011**	1,359,292
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	21	**—**	—
		2,928,011	1,359,292

BALANCE SHEET

31 December 2006

	Notes	2006 HK$	2005 HK$
Non-current assets			
Interests in subsidiaries	18	**6,243,872**	18,350,661
Current assets			
Prepayments, deposits and other receivables		**—**	150,000
Tax recoverable	10	**79,795**	79,795
Cash and cash equivalents	21	**10,967**	10,413
Total current assets		**90,762**	240,208
Current liabilities			
Other payables and accruals		**325,868**	275,400
Convertible note	25	**—**	7,758,372
Total current liabilities		**325,868**	8,033,772
Net current liabilities		**(235,106)**	(7,793,564)
Total assets less current liabilities		**6,008,766**	10,557,097
Net assets		**6,008,766**	10,557,097
Equity			
Issued capital	28	**60,000,000**	60,000,000
Reserves	30	**(53,991,234)**	(49,442,903)
Total equity		**6,008,766**	10,557,097

Liao Lien Shen
Director

Liao Ko Ping
Director

1. CORPORATE INFORMATION

Fast Systems Technology (Holdings) Limited is a limited liability company incorporated in Cayman Islands on 18 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 10 August 2001. The registered office of the Company is located at P.O. box 309, Ugland House, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal business address of the Company is located at Unit 905, Grand City Plaza, Tsuen Wan, New Territories, Hong Kong.

The Company is an investment holding company. Except for the discontinue of its business in watch distribution in Taiwan, the Group's principal activities have not changed during the year and was involved in manufacture and sale of synthetic sapphire watch crystals, optoelectronic products and distributing watches.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for leasehold buildings, which have been measured at revalued amounts or fair value. These financial statements are presented in Hong Kong dollars.

Fundamental uncertainty

Despite the fact that the Group and the Company had net current liabilities of HK$9,407,205 and HK$235,106, respectively, as at the balance sheet date, these financial statements have been prepared on the basis that the Group and the Company will continue to operate as a going concern. Such going concern basis is based upon the presumption of continuous financial support from a shareholder and director of the Company. The Company's shareholder and director has indicated his willingness to continue financing the operations of the Company and has agreed not to demand repayment of the amounts due to him until the Group and the Company is in a position to do so.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 Amendment — Net Investment in a Foreign Operation

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 Amendment — Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005

The adoption of the HKAS 27 Amendment has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements and this change has had no impact on these financial statements as at 31 December 2006 or 31 December 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The adoption of this amendment has had no material impact on these consolidated financial statements as at 31 December 2006 or 31 December 2005.

(d) HKAS 39 Amendment — The Fair Value Option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(e) HK(IFRIC)-Int 4 — Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 and 1 November 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than buildings and assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Buildings are stated in the balance sheet at their valuated amount. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the shorter of the lease terms or 20 years
Leasehold improvements	25%
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Asset under construction represents a factory building under construction or plant, machinery and equipment pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Asset under construction is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Land use rights

All land in the People's Republic of China is 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 prepaid land lease payments under operating leases and are stated at cost and subsequently amortised on the straight line basis over the period of the rights.

Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, which is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and interest bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions *(continued)*

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of the equity-settled awards and has applied HKFRS 2 only to equity settled awards granted after 7 November 2002 that had not been vested by 1 January 2005 and to those granted on or after 1 January 2005.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees 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 , except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a percentage of its 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year .

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Unrecognition of deferred tax assets

Deferred tax assets have not been recognised in respect of the net effect of tax losses and accelerated tax depreciation as in the opinion of the directors, the realisation of the related tax benefit through future profit streams is unpredictable.

Measurement of convertible notes

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

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.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the synthetic sapphire watch crystals segment is a supplier of watch crystals mainly for use in the manufacture of watch products;

(b) the optoelectronic products segment is a supplier of optoelectronic products for use in internet cable;

(c) the watch distribution segment comprises, principally, sales of the watch products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

4. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Continuing operations		Discontinued operation	
	Synthetic sapphire watch crystals *HK$*	Optoelectronic products *HK$*	Watch distribution *HK$*	Consolidated *HK$*
Segment revenue	22,004,750	4,850,024	24,189,296	51,044,070
Segment results	(2,101,532)	(548,084)	408,260	(2,241,356)
Interest and other income				464,384
Unallocated expenses				(2,151,896)
Loss from operations				(3,928,868)
Finance costs				(643,932)
Loss before tax				(4,572,800)
Tax				—
Loss for the year				(4,572,800)
Segment assets	12,619,774	3,061,485	—	15,681,259
Unallocated assets				8,580,865
Total assets				24,262,124
Segment liabilities	5,102,662	2,527,702	—	7,630,364
Unallocated liabilities				12,584,668
Total liabilities				20,215,032
Capital expenditure	145,695	—	—	
Depreciation and amortisation	2,111,310	117,565	—	
Impairment on slow-moving inventories	—	—	—	
Write-down of inventories to net realisable value	863,212	—	—	

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2005

	Continuing operations		Discontinued operation	
	Synthetic sapphire watch crystals *HK$*	Optoelectronic products *HK$*	Watch distribution *HK$*	Consolidated *HK$*
Segment revenue	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 tax				(5,136,823)
Tax				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 on slow-moving inventories	835,600	—	—	
Write-down of inventories to net realisable value	—	1,389,291	—	

Segment assets did not include prepaid land lease payments and buildings of HK$518,018 and HK$4,275,000 respectively (2005: HK$511,216 and HK$4,500,000 repectively) 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.

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Europe HK$	Hong Kong HK$	Taiwan HK$	The PRC HK$	Consolidated HK$
Segment revenue:					
Sales to external customers	15,558,271	6,178,720	27,560,076	1,747,003	51,044,070
Attributable to discontinued operation	—	—	(24,189,296)	—	(24,189,296)
Revenue from continuing operations	15,558,271	6,178,720	3,370,780	1,747,003	26,854,774
Other segment information:					
Segment assets	819,608	4,818,495	390,273	18,233,748	
Capital expenditure	—	10,390	—	135,305	

Year ended 31 December 2005

	Europe HK$	Hong Kong HK$	Taiwan HK$	The PRC HK$	Consolidated HK$
Segment revenue:					
Sales to external customers	11,599,333	16,878,780	34,159,367	5,398,871	68,036,351
Attributable to discontinued operation	—	—	(31,770,416)	—	(31,770,416)
Revenue from continuing operations	11,599,333	16,878,780	2,388,951	5,398,871	36,265,935
Other segment information:					
Segment assets	1,910,456	4,732,740	4,728,529	20,292,685	
Capital expenditure	—	—	—	23,979	

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for sales returns, trade discounts and business tax during the year.

An analysis of revenue, other income and gains is as follows:

	Notes	2006 HK$	2005 HK$
Revenue			
Sale of goods		**51,044,070**	68,036,351
Attributable to continuing operations reported in the consolidated income statement		**26,854,774**	36,265,935
Attributable to discontinued operation	11	**24,189,296**	31,770,416
		51,044,070	68,036,351
Other income and gains			
Bank interest income		**14,383**	8,690
Tooling and moulding fee		**415,760**	—
Others		**34,241**	16,920
		464,384	25,610
Total revenue, other income and gains		**51,508,454**	68,061,961

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2006	2005
	HK$	*HK$*
Cost of sales:		
— Continuing operations	**24,254,245**	32,819,332
— Discontinued operation	**21,981,036**	25,559,853
	46,235,281	58,379,185
Amortisation of prepaid land lease payment	**13,647**	13,122
Depreciation of property, plant and equipment	**2,453,875**	2,569,952
Write back of impairment of trade receivables	**(251,884)**	—
Impairment on slow-moving inventories	**—**	835,600
Write-down of inventories to net realisable value (included in cost of sales)	**863,212**	1,389,291
Net exchange (gain)/loss	**(372,939)**	260,896
Research and development costs (included in cost of sales, excluding staff costs)	**151,594**	184,079
Minimum lease payments under operating leases:		
Land and buildings	**131,423**	161,971
Other property, plant and equipments	**—**	2,100
	131,423	164,071
Auditors' remuneration	**470,000**	328,000
Staff costs (including directors' remuneration) *(note 8)*#:		
Wages and salaries	**5,480,604**	6,856,786
Pension scheme contributions	**246,086**	203,635
	5,726,690	7,060,421

Of the total staff costs, HK$654,210 (2005: HK$635,395) was attributed to research and development activities of the Group.

7. FINANCE COSTS

	2006	2005
	HK$	*HK$*
Interest on:		
Bank and other loans wholly repayable within five years	**118,106**	201,813
Loan from a related company	**223,000**	297,000
Convertible note	**275,038**	551,434
Finance leases	**27,788**	22,182
	643,932	1,072,429

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$	*HK$*
Fees	**140,000**	180,000
Other emoluments:		
Salaries, allowances and benefits in kind	**523,200**	523,200
Pension scheme contributions	**12,000**	12,000
	535,200	535,200
	675,200	715,200

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$	2005 HK$
Mr. Chin Chang Ming*	40,000	—
Ms. Sun Hsi Chen*	40,000	—
Mr. Tam Yeung Kai, Vicko**	—	60,000
Mr. Cheng Isaac**	—	60,000
Mr. Lam Ngai Ming	60,000	60,000
	140,000	180,000

* Appointed on 12 May 2006
** Resigned on 28 February 2006

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Fees HK$	Salaries, allowances and benefits in kind HK$	Performance related bonuses HK$	Employee share option benefits HK$	Pension scheme contributions HK$	Total remuneration HK$
Year ended 31 December 2006						
Executive directors:						
Mr. Liao Lien Shen	—	261,600	—	—	—	261,600
Mr. Liao Ko Ping	—	261,600	—	—	12,000	273,600
Mr. Liao Chin Te	—	—	—	—	—	—
	—	523,200	—	—	12,000	535,200
Year ended 31 December 2005						
Executive directors:						
Mr. Liao Lien Shen	—	261,600	—	—	—	261,600
Mr. Liao Ko Ping	—	261,600	—	—	12,000	273,600
Mr. Liao Chin Te	—	—	—	—	—	—
	—	523,200	—	—	12,000	535,200

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2005: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$	*HK$*
Salaries, allowances and benefits in kind	**684,000**	642,000
Pension scheme contributions	**21,600**	24,500
	705,600	666,500

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**3**	3

10. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Group:

	2006	2005
	HK$	*HK$*
Current tax:		
Hong Kong profits tax	—	—
Other regions in the PRC	—	(209,626)
	—	(209,626)
Over/(under) provision in prior years:		
Hong Kong	—	394,210
Other regions in the PRC	—	(120,795)
	—	273,415
Deferred tax *(note 27)*	—	—
Tax credit	—	63,789

10. TAX *(continued)*

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2006		2005	
	HK$	**%**	*HK$*	%
Loss before tax	**4,572,800**		5,136,823	
Tax at the average tax rate of 17.3% (2005: 17.3%)	**790,853**	**17.3**	886,733	17.3
Expenses not deductible for tax	**(179,332)**	**(3.9)**	(220,011)	(4.3)
Income not taxable	**68,585**	**1.5**	1,199	—
Overprovision in prior years	**—**	**—**	273,415	5.3
Tax benefit not recognised	**(680,106)**	**(14.9)**	(877,547)	(17.1)
Tax credit	**—**	**N/A**	63,789	N/A
Tax credit attributable to discontinued operation	**—**	**—**	—	—
Tax credit attributable to continuing operations	**—**	**N/A**	63,789	N/A

The average tax rates for each of the years ended 31 December 2006 and 2005 represent the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of loss before taxation and the relevant statutory rates.

11. DISCONTINUED OPERATION

During the year, the Group has decided to cease its watch distribution business in Taiwan.

The results of watch distribution business for the year are as follows:

	2006	2005
	HK$	*HK$*
Revenue	**24,189,296**	31,770,416
Cost of sales	**(21,981,036)**	(25,559,853)
Gross profit	**2,208,260**	6,210,563
Selling and distribution expenses	**—**	(2,994,698)
Other expenses	**(1,800,000)**	(1,971,510)
Profit before tax from the discontinued operation	**408,260**	1,244,355
Tax	**—**	—
Profit for the year from the discontinued operation	**408,260**	1,244,355

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$4,548,331 (2005: HK$5,168,320) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: Nil).

14. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company, and the number of ordinary shares in issue during the year.

A diluted loss per share for the years ended 31 December 2006 and 2005 has not been disclosed as the share options and convertible note outstanding had an anti-dilutive effect on the basic loss per share for the years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture fixtures and equipment	Motor vehicles	Total
	HK$	HK$	HK$	HK$	HK$	HK$
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost or valuation	4,500,000	60,202	80,784,687	3,111,133	363,413	88,819,435
Accumulated depreciation	—	(60,201)	(70,780,680)	(2,725,267)	(321,030)	(73,887,178)
Net carrying amount	4,500,000	1	10,004,007	385,866	42,383	14,932,257
At 1 January 2006, net of accumulated depreciation	4,500,000	1	10,004,007	385,866	42,383	14,932,257
Additions	—	113,463	32,232	—	—	145,695
Depreciation provided during the year	(225,000)	(5,673)	(1,991,358)	(208,017)	(23,827)	(2,453,875)
Exchange realignment	—	—	283,671	15,428	1,696	300,795
At 31 December 2006, net of accumulated depreciation and impairment	4,275,000	107,791	8,328,552	193,277	20,252	12,924,872
At 31 December 2006:						
Cost or valuation	4,500,000	173,665	83,913,970	3,227,138	377,950	92,192,723
Accumulated depreciation and impairment	(225,000)	(65,874)	(75,585,418)	(3,033,861)	(357,698)	(79,267,851)
Net carrying amount	4,275,000	107,791	8,328,552	193,277	20,252	12,924,872
Analysis of cost or valuation:						
At cost	—	173,665	83,913,970	3,227,138	377,950	87,692,723
At valuation	4,500,000	—	—	—	—	4,500,000
	4,500,000	173,665	83,913,970	3,227,138	377,950	92,192,723

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

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture fixtures and equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2005						
At 1 January 2005:						
Cost or valuation	5,815,920	60,202	78,593,055	2,992,962	353,224	87,815,363
Accumulated depreciation	(1,102,832)	(45,152)	(67,255,360)	(2,385,124)	(289,762)	(71,078,230)
Net carrying amount	4,713,088	15,050	11,337,695	607,838	63,462	16,737,133
At 1 January 2005, net of accumulated depreciation	4,713,088	15,050	11,337,695	607,838	63,462	16,737,133
Additions	—	—	13,221	10,758	—	23,979
Transfer from assets under construction (Note 16)	362,300	—	—	—	—	362,300
Impairment	(93,425)	—	—	—	—	(93,425)
Depreciation provided during the year	(617,916)	(15,049)	(1,635,246)	(278,831)	(22,910)	(2,569,952)
Exchange realignment	135,953	—	288,337	46,101	1,831	472,222
At 31 December 2005, net of accumulated depreciation and impairment	4,500,000	1	10,004,007	385,866	42,383	14,932,257
At 31 December 2005:						
Cost or valuation	4,500,000	60,202	80,784,687	3,111,133	363,413	88,819,435
Accumulated depreciation	—	(60,201)	(70,780,680)	(2,725,267)	(321,030)	(73,887,178)
Net carrying amount	4,500,000	1	10,004,007	385,866	42,383	14,932,257
Analysis of cost or valuation:						
At cost	—	60,202	80,784,687	3,111,133	363,413	84,319,435
At valuation	4,500,000	—	—	—	—	4,500,000
	4,500,000	60,202	80,784,687	3,111,133	363,413	88,819,435

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

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 31 December 2005 on the depreciated replacement cost approach basis.

At 31 December 2006, the Group's land use rights and buildings were valued by Malcolm & Associates Appraisal Limited on the depreciated replacement cost approach basis for assessment of impairment.

(c) The carrying amount of the Group's buildings would have been HK$4,378,789 (2005: HK$4,593,426) had they been stated at cost less accumulated depreciation.

(d) At 31 December 2006, the Group's buildings together with the related land use rights (note 17) with an aggregate net book values of HK$4,275,000 (2005: HK$4,500,000) and HK$518,018 (2005: HK$511,216) respectively were pledged as security to secure bank loans.

16. ASSETS UNDER CONSTRUCTION

Group

	Buildings	**Plant and machinery**	**Total**
	HK$	*HK$*	*HK$*
Carrying amount at 1 January 2005	362,300	—	362,300
Transfer to property, plant and equipment *(Note 15)*	(362,300)	—	(362,300)
Carrying amount at 31 December 2005	—	—	—
Additions	—	11,407	11,407
Carrying amount at 31 December 2006	—	11,407	11,407

17. PREPAID LAND LEASE PAYMENTS

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

	Group	
	2006	2005
	HK$	*HK$*
Carrying amount at 1 January	**511,216**	509,637
Amortisation during the year	**(13,647)**	(13,122)
Exchange realignment	**20,449**	14,701
Carrying amount at 31 December	**518,018**	511,216

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 14 October 2043.

At 31 December 2006, the Group's land use rights together with the buildings (note 15) with net book values of HK$518,018 (2005: HK$511,216) and HK$4,275,000 (2005: HK$4,500,000) respectively were pledged as security to secure bank loans.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$	*HK$*
Unlisted shares, at cost	**10,392,027**	10,392,027
Amounts due from subsidiaries	**54,566,309**	59,125,792
	64,958,336	69,517,819
Amount due to a subsidiary	**(2,566,306)**	—
	62,392,030	69,517,819
Impairment	**(56,148,158)**	(51,167,158)
	6,243,872	18,350,661

18. INTERESTS IN SUBSIDIARIES *(continued)*

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

Particulars of the subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Oriental Light (Holdings) Limited	British Virgin Islands ("BVI")	HK$25,000,000	100%	—	Investing holding
Oriental Light Industries Limited	Hong Kong	HK$1,000,000	—	100%	Investment holding and trading of synthetic sapphire watch crystals
Oriental Light (Fuqing) Company Limited*	PRC#	HK$35,500,000	—	100%	Manufacturing of synthetic sapphire watch crystals
Fast Systems Limited	BVI	US$1	—	100%	Trading of synthetic sapphire watch crystals and distribution of watches
Fast Systems Limited	Hong Kong	HK$2	—	100%	Inactive
Principle Industries Limited	BVI	US$1	—	100%	Investment holding
Superjet Technologies Limited	Hong Kong	HK$2	—	100%	Investment holding and trading of ferrules
Fujian Superjet Technologies Company Limited*	PRC#	US$7,100,000	—	100%	Manufacturing and trading of ferrules

The companies are wholly foreign owned enterprises in the PRC.

* Not audited by Cachet Certified Public Accountants Limited.

18. INTERESTS IN SUBSIDIARIES *(continued)*

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

19. INVENTORIES

	Group	
	2006	2005
	HK$	*HK$*
Raw materials	**408,956**	75,748
Work in progress	**1,079,998**	2,089,425
Finished goods	**1,339,553**	1,880,004
	2,828,507	4,045,177

At 31 December 2006, the carrying amount of inventories that are carried at net realisable value amounted to HK$1,402,107 (2005: HK$1,283,198).

20. TRADE RECEIVABLES

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

20. TRADE RECEIVABLES *(continued)*

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$	*HK$*
0 — 30 days	**1,620,451**	5,611,089
31 — 60 days	**1,020,425**	1,471,895
61 — 90 days	**614,145**	1,537,099
Over 90 days	**589,373**	1,099,640
	3,844,394	9,719,723

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Notes	***HK$***	*HK$*	***HK$***	*HK$*
Cash and bank balances		**2,875,461**	1,359,292	**10,967**	10,413
Time deposits		**52,550**	80,612	**—**	—
		2,928,011	1,439,904	**10,967**	10,413
Less: Pledged time deposits:					
Pledged for trade finance facilities		**—**	(80,612)	**—**	—
Cash and cash equivalents		**2,928,011**	1,359,292	**10,967**	10,413

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,358,032 (2005: HK$384,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$	*HK$*
0 — 30 days	**1,787,654**	977,200
31 — 60 days	**597,998**	1,066,779
61 — 90 days	**678,379**	263,722
Over 90 days	**1,108,682**	4,582,032
	4,172,713	6,889,733

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

23. LOAN FROM A RELATED COMPANY

	Group	
	2006	2005
	HK$	*HK$*
Loan from a related company	**1,198,671**	3,523,824
Less: Amount due within one year included under current liabilities	**(1,198,671)**	(106,984)
Non-current portion	**—**	3,416,840

The loan from a related company is unsecured and bears interest at 8.25% per annum. The loan was originally repayable by various monthly instalments up to January 2015 which has been amended to be repayable on demand during the year.

24. FINANCE LEASE PAYABLES

The Group leases certain of its machineries for its manufacturing business and general administration. These leases are classified as finance leases and have remaining lease terms of one year in 2005.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Amounts payable:				
Within one year	—	240,055	—	232,459
Total minimum finance lease payments	—	240,055	—	232,459
Future finance charges	—	(7,596)		
Total net finance charges	—	232,459		
Portion classified as current liabilities	—	(232,459)		
Long term portion	—	—		

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 were under corporate guarantee provided by the Company as at 31 December 2005.

25. CONVERTIBLE NOTE

On 2 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 2 January 2004 to the maturity date of 30 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 29 April 2004.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in the shareholders' equity.

	2006	2005
	HK$	*HK$*
Liability component at the beginning of the year	**7,758,372**	7,674,428
Interest charged	**275,038**	551,434
Interest paid	**(233,410)**	(467,490)
Redemption of convertible note	**(7,800,000)**	—
Liability component at the end of the year	**—**	7,758,372
Less: Amount due within one year shown under current liabilities	**—**	(7,758,372)
Long term portion	**—**	—

The convertible note had been fully repaid upon its maturity on 30 June 2006.

26. INTEREST BEARING BANK BORROWING

The interest bearing bank borrowing is secured by the Group's interest in land use rights *(note 17)* and buildings *(note 15)*, bears interest at 7.3% per annum and is fully repayable on or before 21 September 2007.

27. DEFERRED TAX

At 31 December 2006, the Group has unused tax losses of approximately HK$19,073,000 (2005: HK$15,358,000) 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$15,524,000 (2005: HK$15,358,000) may be carried forward indefinitely. During the year, no unrecognised tax losses has expired (2005: Tax losses of HK$3,215,000 were expired).

At 31 December 2006, the Group has deductible temporary differences of approximately HK$27,730,000 (2005: HK$31,047,000). 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.

28. SHARE CAPITAL

Shares

	2006	2005
	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

29. SHARE OPTION SCHEME

By a written resolution of their sole shareholder of the Company passed on 21 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.

29. SHARE OPTION SCHEME *(continued)*

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.

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

	Number of options 2006	2005
At the beginning and the end of year	**60,000,000**	60,000,000

The share options outstanding at 31 December 2006 and 2005 have the following terms:

Category	Date of grant	Expiry date	Exercise price *HK$*	Number of options 2006	2005
Directors	6 June 2002	6 June 2012	0.158	**49,000,000**	49,000,000
Employees	6 June 2002	6 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.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

The contributed surplus of the Group represents the difference between the consolidated net assets of value of Oriental Light (Holdings) Limited on 31 December 2000, when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares on 10 August 2001, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium	Convertible note reserves	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2005	1,796,747	210,438	(46,281,768)	(44,274,583)
Loss for the year	—	—	(5,168,320)	(5,168,320)
At 31 December 2005	1,796,747	210,438	(51,450,088)	(49,442,903)
Transfer on redemption of convertible notes	—	(210,438)	210,438	—
Loss for the year	—	—	(4,548,331)	(4,548,331)
At 31 December 2006	1,796,747	—	(55,787,981)	(53,991,234)

The Company has no reserves (2005: Nil) available for distribution at 31 December 2006.

31. RELATED PARTY TRANSACTIONS

Apart from the related party transactions as disclosed in note 25 to the financial statements, the Group entered into the following transactions with related parties during the year:

(i) During the year ended 31 December 2005, the directors, Mr. Liao Lien Shen and Mr. Liao Ko Ping, provided a limited joint guarantee to a subsidiary of the Company to guarantee for the general banking facility of HK$3,900,000. The banking facility had been expired and there was no outstanding guarantee as at 31 December 2006.

(ii) During the year ended 31 December 2005, Mr. Liao Ko Ping also provided an unlimited guarantee to a bank to secure general banking facilities granted to a subsidiary. The banking facilities had been expired and there was no outstanding guarantee as at 31 December 2006.

(iii) During both 2006 and 2005, 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.

(iv) The interest expense charged by the related company during the year arisen from its advances, further details of which, including the terms, are disclosed in notes 7 and 23 to the financial statements respectively.

32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2006	2005
	HK$	*HK$*
Within one year	**135,660**	94,486
In the second to fifth year inclusive	**67,830**	—
	203,490	94,486

33. CONTINGENT LIABILITIES

The Group and the Company did not have material contingent liabilities as at 31 December 2006 (2005: Nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible bonds, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's trust receipt loans with a floating interest rate.

Foreign currency risk

The Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi and HK dollars.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible bonds, other interest-bearing loans and finance leases. 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.

35. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified/restated to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2007.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been reclassified for the discontinue of the watch distribution segment.

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**26,854,774**	36,265,935	42,436,249	35,684,607	38,884,520
Cost of sales	**(24,254,245)**	(32,819,332)	(33,848,915)	(29,694,145)	(29,779,029)
Gross profit	**2,600,529**	3,446,603	8,587,334	5,990,462	9,105,491
Other income and gains	**464,384**	25,610	1,376	3,816	20,594
Selling and distribution costs	**(780,890)**	(1,239,985)	(2,921,101)	(1,092,766)	(1,060,305)
Administrative expenses	**(5,449,997)**	(6,301,451)	(6,915,683)	(45,222,141)	(8,281,337)
Other expenses	**(1,171,154)**	(1,239,526)	(1,944,569)	(1,463,822)	(3,168,364)
Finance costs	**(643,932)**	(1,072,429)	(1,158,285)	(756,258)	(443,056)
LOSS BEFORE TAX	**(4,981,060)**	(6,381,178)	(4,350,928)	(42,540,709)	(3,826,977)
Tax	**—**	63,789	(1,369,233)	359,624	(664,430)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(4,981,060)**	(6,317,389)	(5,720,161)	(42,181,085)	(4,491,407)
DISCONTINUED OPERATION					
Profit/(loss) for the year from discontinued operation	**408,260**	1,244,355	(65,930)	2,644,316	1,197,929
LOSS FOR THE YEAR	**(4,572,800)**	(5,073,034)	(5,786,091)	(39,536,769)	(3,293,478)
Attributable to:					
Equity holders of the Company	**(4,572,800)**	(5,073,034)	(5,786,091)	(39,536,769)	(3,293,478)
ASSETS AND LIABILITIES					
TOTAL ASSETS	**24,262,124**	31,664,410	45,534,584	43,818,509	80,256,575
TOTAL LIABILITIES	**(20,215,032)**	(23,637,793)	(33,186,441)	(25,894,713)	(22,796,010)
	4,047,092	8,026,617	12,348,143	17,923,796	57,460,565