



FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東光集團有限公司*

(incorporated in the Cayman Islands with limited liability)

2002 Interim Report

* *For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board operated by the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

This report, for which the directors of Fast Systems Technology (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) 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 announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東光集團有限公司*

(incorporated in Cayman Islands with limited liability)

2002 Interim Report

HIGHLIGHTS

- The Group has recorded total turnover of HK\$21,710,000 for the six months ended 30th June, 2002.
- The Group has recorded a net profit attributable to shareholders for the six months ended 30th June, 2002 of HK\$271,000, representing a basic earnings per share of HK\$0.05 cent.
- The Directors do not recommend the payment of a dividend for the six months ended 30th June, 2002.

FINANCIAL RESULTS (UNAUDITED)

The board of directors (the "Board" or the "Directors") of Fast Systems Technology (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30th June, 2002, together with the comparative unaudited figures for the corresponding periods in 2001 (collectively the "Relevant Periods") as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Note | Three months ended 30th June | | Six months ended 30th June | |
|--|------|---------------------------------|------------------|-------------------------------|------------------|
| | | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Turnover | 3 | 12,436 | 9,772 | 21,710 | 23,858 |
| Cost of sales | | (9,164) | (8,024) | (16,095) | (19,907) |
| Gross profit | | 3,272 | 1,748 | 5,615 | 3,951 |
| Other revenues | 3 | 5 | 76 | 19 | 210 |
| Operating expenses | | | | | |
| Distribution costs | | (255) | (388) | (401) | (718) |
| Administrative expenses | | (2,132) | (1,948) | (3,897) | (3,937) |
| Other operating (expenses)/income, net | | (608) | 489 | (860) | 971 |
| Operating profit | | 282 | (23) | 476 | 477 |
| Finance costs | | (78) | (123) | (152) | (178) |
| Profit before taxation | | 204 | (146) | 324 | 299 |
| Taxation | 4 | (33) | (28) | (53) | (109) |
| Profit attributable to shareholders | | 171 | (174) | 271 | 190 |
| Basic earnings per share | 5 | 0.03 cent | (0.04) cent | 0.05 cent | 0.05 cent |
| Diluted earnings per share | 5 | 0.03 cent | N/A | 0.04 cent | N/A |

* For identification purpose only

CONDENSED CONSOLIDATED BALANCE SHEET

| | | Unaudited 30th June 2002 <i>HK\$'000</i> | Audited 31st December 2001 <i>HK\$'000</i> |
|--|---|---|---|
| Non-current assets | | <u>64,763</u> | <u>59,541</u> |
| Current assets | 6 | 24,068 | 31,831 |
| Current liabilities | 7 | <u>(25,643)</u> | <u>(28,459)</u> |
| Net current (liability)/assets | | <u>(1,575)</u> | <u>3,372</u> |
| Total assets less current liabilities | | <u>63,188</u> | <u>62,913</u> |
| Financed by: | | | |
| Shareholders' funds/(capital deficiency) | | <u>63,188</u> | <u>62,913</u> |
| | | <u>63,188</u> | <u>62,913</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For six months ended 30th June, 2002

| | Unaudited Six months ended 30th June 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|---|--|-------------------------|
| Net cash inflow/(outflow) from operating activities | 7,537 | (14,748) |
| Net cash outflow from returns on investments and servicing of finance | (135) | (143) |
| Taxation paid | (245) | (430) |
| Net cash outflow from investing activities | (6,890) | (2,957) |
| Net cash (outflow)/inflow from financing | <u>(12,375)</u> | <u>26,214</u> |
| (Decrease)/increase in cash and cash equivalents | (12,108) | 7,936 |
| Cash and cash equivalents at 1st January | <u>13,712</u> | <u>524</u> |
| Cash and cash equivalents at 30th June | 1,604 | 8,460 |
| Analysis of the balances of cash and cash equivalents | | |
| Pledged deposits | 0 | 6,500 |
| Bank balances and cash | <u>1,604</u> | <u>1,960</u> |
| | <u>1,604</u> | <u>8,460</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2002

| | Share capital <i>HK\$ '000</i> | Share premium <i>HK\$ '000</i> | Contributed surplus <i>HK\$ '000</i> | Revaluation reserve <i>HK\$ '000</i> | Exchange reserve <i>HK\$ '000</i> | Accumulated losses <i>HK\$ '000</i> | Total <i>HK\$ '000</i> |
|--|--------------------------------------|--------------------------------------|--|--|---|---|---------------------------|
| At 1st January 2001 | 12,000 | - | - | - | - | (18,530) | (6,530) |
| Surplus arising on revaluation of land use rights and leasehold properties | - | - | - | 3,690 | - | - | 3,690 |
| Net losses not recognised | - | - | - | - | - | - | - |
| Issue of share | 3,000 | - | - | - | - | - | 3,000 |
| Profit for the year | - | - | - | - | - | 190 | 190 |
| At 30th June, 2001 | <u>15,000</u> | <u>-</u> | <u>-</u> | <u>3,690</u> | <u>-</u> | <u>(18,340)</u> | <u>350</u> |
| At 1st January, 2002 | 60,000 | 1,797 | 14,608 | 3,690 | - | (17,182) | 62,913 |
| Currency translation differences | - | - | - | - | 4 | - | 4 |
| Transfer to accumulated losses | - | - | - | - | (4) | 4 | - |
| Net gains and losses not recognised in the profit and loss account | - | - | - | - | - | - | - |
| Profit for the year | - | - | - | - | - | 271 | 271 |
| At 30th June, 2002 | <u>60,000</u> | <u>1,797</u> | <u>14,608</u> | <u>3,690</u> | <u>-</u> | <u>(16,907)</u> | <u>63,188</u> |

NOTES TO THE ACCOUNTS

1. Group reorganisation

The Company was incorporated in the Cayman Islands on 18th January, 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.

On 21st July, 2001, pursuant to a group reorganisation (the "Reorganisation") undertaken for the purpose of the listing of the Company's shares on the GEM, the Company acquired the entire issued share capital of Oriental Light (Holdings) Limited ("OLH") through a share swap and became the holding company of OLH and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the Company dated 27th July, 2001.

The Company's shares were listed on the GEM on 10th August, 2001.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are as per audited annual report 2001.

3. Turnover, revenue and segment information

The Group's principal business is the manufacture and trading of synthetic sapphire watch crystals. In 2001, the Group commenced research and development of optoelectronic products comprising ferrules and sleeves.

Revenues recognised during the first half year are as follows:

| | Six months ended 30th June | |
|---|-------------------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Turnover | | |
| Sales of synthetic sapphire watch crystals, net of sales returns, discounts and business tax | 21,710 | 23,858 |
| Other revenues | | |
| Interest income | 17 | 35 |
| Sundry income | 2 | 175 |
| | 19 | 210 |
| Total revenues | 21,729 | 24,068 |

Primary reporting format – business segments

Six months ended 30th June, 2002

| | Synthetic sapphire watch crystals HK\$'000 | Optoelectronic products HK\$'000 | Group HK\$'000 |
|-------------------------------------|---|--|-------------------|
| Turnover | 21,710 | – | 21,710 |
| Segment results | 5,615 | – | 5,615 |
| Unallocated revenues | | | 19 |
| Unallocated expenses | | | (5,158) |
| Operating profit | | | 476 |
| Finance costs | | | (152) |
| Profit before taxation | | | 324 |
| Taxation | | | (53) |
| Profit attributable to shareholders | | | 271 |

For the six months ended 30th June, 2001 the Group had only one single business segment which was the manufacturing and sales of synthetic sapphire watch crystals. On this basis, the segment information for this sole business segment is equivalent to the consolidated figures.

Secondary reporting format – geographical segments

Turnover for six months ended 30th June, 2002

| | 2002 | 2001 |
|------------------------------------|------------------------|----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Europe | 10,752 | 14,371 |
| Hong Kong | 4,436 | 7,206 |
| Taiwan | 6,522 | 2,281 |
| People's Republic of China ("PRC") | — | — |
| Total | <u>21,710</u> | <u>23,858</u> |

4. Taxation

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

| | 2002 | 2001 |
|---|------------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong profits tax (<i>note (i)</i>) | 51 | 67 |
| Overseas taxation (<i>note (ii)</i>) | 22 | 42 |
| Overprovisions in prior years | (20) | — |
| | <u>53</u> | <u>109</u> |

Notes:

- (i) Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) on the respective estimated assessable profits of the companies within the Group operating in Hong Kong during the year.
- (ii) Overseas taxation represented the tax charged on the estimated assessable profits of a PRC subsidiary calculated at the rates prevailing in the PRC.

One subsidiary which operates in the PRC is subject to a preferential income tax rate of 15% (2001: 15%) on its taxable profit. The subsidiary has been granted full exemption from the enterprises income tax for two years from its first profit-making year, for tax purposes, (being the year ended 31st December 1998) followed by a 50% reduction in tax rate for the following three years.

The Taiwan branch which operates in Taiwan is subject to an income tax rate of 30% (2001: 30%) on its assessable profits. The Taiwan branch has no assessable profit chargeable to income tax for each of the two half-year ended 30th June 2002 and 2001.

- (b) No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation asset is uncertain.

5. Earnings per share

The calculation of basic earnings per share for the year ended 30th June, 2002 is based on the Group's profit for the year of HK\$271,000 and the 600,000,000 ordinary shares in issue during the year.

The basic earnings per share for the year ended 30th June, 2001 is calculated based on the profit of HK\$190,000 and an aggregate of 403,333,336 ordinary shares, comprising 3,900,000 shares in issue subsequent to the Reorganisation (notes 8(a),(b) and (c)) and 399,433,336 shares issued pursuant to the capitalisation issue to the then shareholders of the Company (the "Capitalisation Issue") (note 8(f)), which were deemed to have been in issue since the incorporation date of OLH.

Diluted earnings per share for the year ended 30th June, 2002 is based on the Group's profit for the year of HK\$271,000 and the 613,069,307 ordinary shares deemed to be in issue during the year. The additional 13,069,307 ordinary shares represent deemed free shares issued due to the difference between the fair value of HK\$0.202 and the option striking price of HK\$0.158. 60,000,000 share options were granted on 6th June, 2002.

6. Current assets

At 30th June, 2002, the balance of current assets included trade receivables of HK\$14,971,000 (31st December, 2001: HK\$10,054,000). The Group's terms on credit sales primarily range from 30 to 90 days.

The ageing analysis of the trade receivables at reporting date is as follows:

| | 30th June 2002 | 31st December 2001 |
|--------------|---------------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current | 4,902 | 4,670 |
| 31 – 60 days | 3,286 | 1,297 |
| 61 – 90 days | 3,253 | 995 |
| Over 90 days | 3,530 | 3,092 |
| | <hr/> 14,971 <hr/> | <hr/> 10,054 <hr/> |

7. Current liabilities

At 30th June, 2002, the balance of current liabilities included trade payables of HK\$8,284,000 (31st December, 2001: HK\$5,675,000). The ageing analysis of the trade payables at reporting date is as follows:

| | 30th June 2002 HK\$'000 | 31st December 2001 HK\$'000 |
|--------------|--|-----------------------------------|
| Current | 1,880 | 1,327 |
| 31 – 60 days | 2,012 | 1,596 |
| 61 – 90 days | 1,986 | 760 |
| Over 90 days | 2,406 | 1,992 |
| | <u>8,284</u> | <u>5,675</u> |

8. Share capital

2001
HK\$

Authorised:

10,000,000,000 ordinary shares of HK\$0.10 each 1,000,000,000

Issued and fully paid:

600,000,000 ordinary shares of HK\$0.10 each 60,000,000

- (a) The Company was incorporated in the Cayman Islands on 18th January, 2001 with an authorised capital of US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each. One share was allotted and issued at par for cash on that date.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 26th March, 2001:
- (i) the authorised share capital of the Company was increased to an aggregate of US\$50,000 and HK\$390,000 by the creation of an additional 3,900,000 ordinary shares of HK\$0.10 each;
 - (ii) 80 ordinary shares of HK\$0.10 each were issued at par for cash;
 - (iii) the one issued share of US\$1.00 was repurchased at par by the Company out of the proceeds of the issue referred to in note (ii) above and was cancelled upon the repurchase; and
 - (iv) the authorised but unissued share capital of the Company was reduced by the cancellation of 50,000 ordinary shares of US\$1.00 each.

(c) Pursuant to the written resolutions of the sole shareholder of the Company passed on 21st July, 2001:

- (i) the authorised share capital of the Company was increased from HK\$390,000 to HK\$1,000,000,000 by the creation of an additional 9,996,100,000 new ordinary shares of HK\$0.10 each which rank pari passu with the existing shares, and
- (ii) an aggregate of 3,899,920 ordinary shares of HK\$0.10 each were allotted and issued, credited as fully paid, as consideration for the acquisition by the Company of the entire share capital of OLH. The excess of the consolidated net assets of OLH and its subsidiaries at that date over the par value of the Company's shares issued was credited to the share premium account of the Company.

(d) The Placing and Public Offer

On 8th August, 2001, 70,200,000 ordinary shares of HK\$0.10 each were issued by way of placing at a premium of HK\$0.20 per share for cash (the "Placing"). On the same date, 19,800,000 ordinary shares of HK\$0.10 each were issued to the public at a premium of HK\$0.20 per share for cash (the "Public Offer"). The excess of the issue price over the par value of the shares issued upon the Placing and Public Offer totalling HK\$18,000,000 was credited to the share premium account of the Company.

(e) The Conversion

On 8th August, 2001, convertible notes of the aggregate principal amount of HK\$32,000,000 were converted into 106,666,664 ordinary shares of HK\$0.10 each (the "Conversion"). The excess of the book value of the convertible notes over the par value of the share issued totalling HK\$21,333,334 was credited to the share premium account of the Company.

(f) The Capitalisation Issue

On 8th August, 2001, immediately after the Placing, Public Offer and Conversion, 399,433,336 ordinary shares of HK\$0.10 each were allotted and issued at par, credited as fully paid, to the shareholders in proportion to their respective shareholdings on the register of members of the Company at the close of business on 21st July, 2001 by way of the capitalisation of the share premium available.

(g) The share capital in the consolidated balance sheet as at 31st December, 2000 represented the issued and fully paid share capital of OLH at that date.

9. Commitments

(a) Capital commitments

At 30th June, 2002, the Group had capital commitments of HK\$2,157,948 (2001: HK\$2,753,028) contracted but not provided for in respect of the purchases and construction of fixed assets.

(b) Commitments under operating leases

At 30th June, 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Land and buildings | | Other fixed assets | |
|---|---------------------------|---------------|---------------------------|---------------|
| | 30th June | 31st December | 30th June | 31st December |
| | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Less than one year | 141 | 54 | 13 | 13 |
| More than one year and less than five years | 161 | – | 21 | 27 |
| | 302 | 54 | 34 | 40 |

10. Contingent liabilities

At 30th June, 2002, the Group had no material contingent liabilities (31st December, 2001: Nil).

The Company provided unlimited corporate guarantee for bank facilities of subsidiaries aggregating to HK\$24,000,000 (31st December, 2001: HK\$24,000,000), of which a total of HK\$3,400,000 (31st December, 2001: HK\$13,905,000) was utilised at 30th June, 2002.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2002 (2001: Nil).

BUSINESS REVIEW

For the six months ended 30th June, 2002, the Group recorded a turnover of approximately HK\$21,710,000. Profit attributable to shareholders of the Company for the six months ended 30th June, 2002 was approximately HK\$271,000 while that of the corresponding period in 2001 was approximately HK\$190,000. The reason for the increase in the profit is due to the improved profit margin.

The Taiwan market recovered from the slowdown in demand for synthetic sapphire watch crystals and the new sales and purchasing agent was able to bring in more business through its contacts. Although the Swiss market was suffered in the first half year in 2002, the management of the Group worked aggressively in the Swiss market as the management of the Group is of the view that this market still offers a lot of potential for growth when the worldwide demand for quality wristwatches rebound.

Financial Review

The Group's unaudited consolidated turnover for the six months ended 30th June, 2002 dropped approximately HK\$2,148,000 to approximately HK\$21,710,000, representing a decrease of 9% from the same period last year. However, the gross profit for the six months ended 30th June, 2002 was approximately HK\$5,615,000, representing an increase of 42% as compared to the same period last year. This was mainly attributable to reduction in material cost of approximately HK\$4,027,000.

Operating costs for the six months ended 30th June, 2002 was approximately HK\$5,158,000, representing an increase of approximately HK\$1,474,000 or 40% from the same period last year. The increase was mainly attributable to an increase in exchange loss of approximately HK\$1,253,000 and increase in professional fee of approximately HK\$431,000 while distribution cost was reduced by approximately HK\$317,000.

Liquidity and Financial Resources

As at 30th June, 2002, the Group had cash and bank balance of approximately HK\$1,604,000 which was approximately the same as at 30th June, 2001.

As at 30th June, 2002, the Group had short term bank loans totaling HK\$3,400,000. The bank loans were mainly to provide additional working capital for the Group. In addition, the Group had secured a term loan facilities of US\$650,000 in July 2002 to finance the acquisition of fixed assets.

In view of the current cash position, the banking facilities available and the future cash flow from operation, the Directors believe that the Group has sufficient financial resources to meet its operation need.

Foreign Exchange

The Group normally uses receipts from customers and bank loans to pay its suppliers for satisfying its capital need. Receipts are mainly denominated in Swiss francs, Hong Kong Dollar and Taiwan Dollar while payments are denominated in Euro, Taiwan Dollar and Hong Kong Dollar. While the Group does not currently engaged in hedging to manage its currency risk, as it considers the cost associated with such hedging arrangements would exceed the benefits, management will continue to monitor the relevant circumstances and will take such measures as it deems prudent.

PROSPECTS

The demand for synthetic sapphire watch crystals was low in the 1st quarter of 2002. However, the 2nd quarter sales of the Group's synthetic sapphire watch crystals in 2002 recorded by the Group improved and the Board expected sales and orders in the second half year of 2002 will rebound further.

The Group capitalised on its contact with various prestigious Swiss wristwatch manufacturers and entered into two exclusive wristwatch distributorship agreements for the Taiwan region. The Board will consider other exclusive wristwatch distributorship agreements if available.

Although the economy of the United States is still uncertain, the Board believes the demand for fiber optic components will grow due to the trend of utilising optical fiber to replace traditional copper wire as the medium for transmission.

Final product certification by potential customers and laboratory testing for ferrules produced was completed and mass production of ferrules will start in the third quarter of 2002. It is expected that production will reach 100,000 pieces per month in September 2002 and gradually increase to full capacity by June 2003.

The Board is optimistic about the Group's future performance as the Group is currently well positioned in the synthetic sapphire watch crystals market and well prepared for the entrance into the fiber optic market which in turn, will offer further growth potential for the Group.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

The following is a summary of the actual business progress of the Group compared with the business objectives set out in the Prospectus.

Business objectives for the period from 1st January, 2002 to 30th June, 2002

Actual business progress

Market expansion and penetration

Continue the market expansion activities from the last period

Secured 3 new Swiss customers, 2 new Hong Kong customers, 5 new Taiwan customers and reactivated 3 inactive Taiwan customers during the period under review

Production capacity and efficiency enhancement

Increase the production of ferrules in the range of approximately 200,000 to 250,000 pieces per month

Postponed the commercial production of ferrules due to delay in machines delivery. Ferrules produced in the trial production are being tested by laboratory to confirm the compliance with industry standard. Ferrule samples delivered to potential customers for quality confirmation were accepted. The Group is expected to produce 100,000 pieces per month commencing from September 2002 and achieve the original target of approximately 200,000 pieces per month in February 2003

Install new production facilities for the manufacture of sleeves with a production capacity of approximately 100,000 pieces per month

The installation of new production facilities for the manufacture of sleeves has not been executed yet. The Directors intend to concentrate their efforts to increase the production of ferrules to its full capacity before introduce this new product. The Directors plan to install the new facilities in April 2003

Increase the number of production staff by about 20 persons for the manufacture of ferrules

Total number of production workers did not increase during the period but in fact reduced to reflect the slow down in demand for synthetic sapphire watch crystals and the slower development in the ferrules project. The Group will increase 40 workers by December 2002 to meet its production schedule

Research and development improvement

Continue the research and development activities from the last period

Trial samples of sapphire windows were accepted by customer and the Group is awaiting for volume orders from such customer. Research and development works on sapphire wafer has been temporary suspended, pending for recovering in demand on this product

Research on improving the production efficiency of ferrules

Efforts have been concentrated on how to increase the production efficiency of 2.5mm ferrules. Development on 1.25mm ferrules was in progress

Continue to engage in product development and testing of synthetic sapphire jewellery products

Trial order has been received during the period. The Group is expected to deliver synthetic sapphire jewellery samples at the end of July 2002

Product development

Continue to introduce new models of watch crystal products

A new model of watch crystal has been developed namely, cyclope, an inner concave watch crystal that can give magnifying effect while no magnifier is added onto the surface of the watch crystal. Cylindrical watch crystal with length over 43mm was also developed

USE OF PROCEEDS

A comparison of the use of proceeds between the Group's business plans as stated in the prospectus of 27th July, 2001 and the actual amount of application of the proceeds and internal resource to achieve the Group's business objectives during the period from 1st January, 2002 to 30th June, 2002 is as follows:

| | | Amount stated in the business plans of the prospectus | Proceeds already applied during the period from 1st January, 2002 to 30th June, 2002 |
|---------------------|---|--|---|
| | <i>Note</i> | HK\$ <i>(in million)</i> | HK\$ <i>(in million)</i> |
| Scheduled projects: | | | |
| 1. | Research and development | 0.5 | 0.6 |
| 2. | Finance the purchase of machinery and equipment for the production of sleeves | 3 | 0 |
| | | <u>3.5</u> | <u>0.6</u> |

Note:

1. The Directors intend to concentrate their efforts to increase the production of ferrules to its full capacity before introduce the production of sleeves. The Director plan to install the new facilities in April 2003.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th June, 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors and chief executive of the Company and their associates (as defined in the GEM Listing Rules) in the shares of the Company were as follows:

| Name | Number of Shares | Nature of interests | Percentage of interest |
|---------------------------|------------------|---|------------------------|
| Mr. Liao Lien Shen | 80,000,000 | corporate interests <i>through his holding of the entire issued share capital of and in Grandford Holdings Limited</i> | 13.33% |
| Mr. Liao Ko Ping (Note 1) | 1,233,336 | personal interests | 0.21% |
| Ms. Ma Chin Jong (Note 1) | 195,000,000 | corporate interests <i>through her holding of the entire issued share capital of and in Dynasty Resources Limited</i> | 32.50% |

Save as disclosed above, none of the directors or chief executive of the Company or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate, or had exercised any such right as at 30th June, 2002.

Note

1. Mr. Liao Ko Ping and Ms. Ma Chin Jong are spouses and their deemed interest in the Company is 196,233,336 shares or 32.71 per cent. of the issued share capital of the Company. On 25th July, 2002, Ms. Ma Chin Jong resigned from the post of executive Director of the Company.

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SECURITIES

As at 30th June, 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons (in addition to Mr. Liao Lien Shen, Mr. Liao Ko Ping and Ms. Ma Chin Jong disclosed above) were interested in 10 per cent. or more of the issued share capital of the Company:

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

Note:

- By virtue of section 8(2)(a) of the SDI Ordinance, Mr. Huang Ching Fang, Mr. Huang Ching Yun, Mr. Huang Sheng Chia and Mr. Kodo Yasumasa, being the beneficial shareholders of OMAX Technologies Inc. who are collectively entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of OMAX Technologies Inc., are deemed to be interested in 74,776,666 Shares representing approximately 12.46 per cent. of the entire issued share capital of the Company. Mr. Huang Ching Fang is also interested in 2,670,000 shares of the Company which are held by Taiunion Investment Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Huang Ching Fang.

Save as disclosed above, the Company has not been notified of any other interests representing 10 per cent. or more of the entire issued share capital of the Company as at 30th June, 2002.

MANAGEMENT SHAREHOLDERS' INTERESTS IN SECURITIES

Other than the interests disclosed above in respect of the substantial shareholders, Directors and chief executive of the Company and their associates (as defined in the GEM Listing Rules), as at 30th June, 2002, 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.

OUTSTANDING SHARE OPTIONS

On 21st July, 2001, the Company adopted a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the section headed "Share Option Scheme" in appendix IV to the Company's prospectus dated 27th July, 2001. Since the adoption of the Share Option Scheme, the Company has granted 60,000,000 share options under the Share Options Scheme to its directors and employees as follows:

| | Options held at 1st January 2002 | Options granted during the year <i>Note</i> | Options held at 30th June 2002 | Exercise price <i>HK\$</i> | Date of grant | 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 |

Note:

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

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

1. share price: HK\$0.158, being the closing price of the shares of the Company on 6th June 2002;
2. risk-free interest rate: 5.76%, being the corresponding yield of 10-year Exchange Fund Note traded on 6th June 2002, were assumed to remain constant over the life of the share options;
3. expected life of the share options: 10 years;
4. expected volatility of the shares of the Company: 60.37%, being the annualized volatility of the monthly closing price of the shares of the Company from its date of listing, 10th August, 2001, to 30th June 2002, were assumed to remain constant over the life of the share options; and
5. no dividends would be declared during the life of the share options.

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

Note:

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

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Up to 30th June, 2002, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

INTERESTS OF SPONSORS

TIS Securities (Hong Kong) Limited ("TIS Securities") and CSC Asia Limited ("CSC Asia") have entered into a sponsorship agreement with the Company whereby, for a fee, TIS Securities and CSC Asia will act as the Company's continuing sponsors for the period from 10th August, 2001 to 31st December, 2003.

None of TIS Securities, CSC Asia, their directors, employees and associates, as at 30th June, has any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

COMPETING INTERESTS

As at 30th June, 2002, 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.

BOARD PRACTICES AND PROCEDURES

During the period from 1st January, 2002 to 30th June, 2002, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”).

AUDIT COMMITTEE

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

The audit committee last met on 13th August, 2002 to discuss matters in relation to the half year interim report ended 30th June, 2002.

By Order of the Board
Liao Lien Shen
Chairman

Hong Kong, 13th August, 2002