



FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東光集團有限公司*

(incorporated in the Cayman Islands with limited liability)

2002 Third Quarterly Report

* *For identification purpose only*

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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 (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 report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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HIGHLIGHTS

- The Group has recorded total turnover of HK\$32,828,000 for the nine months ended 30th September, 2002.
- The Group has recorded a net profit attributable to shareholders for the nine months ended 30th September, 2002 of HK\$584,000, representing a basic earnings per share of HK\$0.10 cent.
- The Directors do not recommend the payment of a dividend for the nine months ended 30th September, 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 nine months ended 30th September, 2002, together with the comparative unaudited figures for the corresponding periods in 2001 (collectively the ‘Relevant Periods’) as follows:

	<i>Note</i>	Three months ended		Nine months ended	
		30th September		30th September	
		2002	2001	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		11,118	12,668	32,828	36,527
Cost of sales		(7,309)	(9,242)	(23,482)	(29,149)
Gross profit		3,809	3,426	9,346	7,378
Other revenues		0	20	19	229
Operating expenses					
Distribution costs		(293)	(546)	(694)	(1,265)
Administrative expenses		(2,219)	(1,721)	(6,123)	(5,658)
Other operating income, net		(821)	(316)	(1,596)	655
Operating (loss)/profit		476	863	952	1,339
Finance costs		(101)	(154)	(253)	(332)
Profit before taxation		375	709	699	1,007
Taxation	3	(62)	(113)	(115)	(222)
Profit attributable to shareholders		313	596	584	785
Basic earnings per share	4	0.05 cent	0.15 cent	0.10 cent	0.19 cent
Diluted earnings per share	4	0.05 cent	N/A	0.10 cent	N/A

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BASIS OF PREPARATION

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. Taxation

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong profits tax (<i>note (i)</i>)	105	142
Overseas taxation (<i>note (ii)</i>)	30	80
Overprovisions in prior years	(20)	–
	<u>115</u>	<u>222</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 September 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.

4. Earnings per share

The calculation of basic earnings per share for the year ended 30th September, 2002 is based on the Group's profit for the year of HK\$584,000 and the 600,000,000 ordinary shares in issue during the year.

The basic earnings per share for the nine months ended 30th September, 2001 is calculated based on the profit of HK\$785,000 and an aggregate of 403,333,336 ordinary shares, comprising 3,900,000 shares in issue subsequent to the Reorganisation and 399,433,336 shares issued pursuant to the capitalisation issue to the then shareholders of the Company (the "Capitalisation Issue"), which were deemed to have been in issue since 1st January, 2001.

Diluted earnings per share for the nine months ended 30th September, 2002 is based on the Group's profit for the year of HK\$584,000 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.

INTERIM DIVIDEND

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

BUSINESS REVIEW

For the nine months ended 30th September, 2002, the Group recorded a turnover of approximately HK\$32,828,000 (2001: HK\$36,527,000). Profit attributable to shareholders of the Group for the nine months ended 30th September, 2002 was approximately HK\$584,000 while that of the corresponding period in 2001 was approximately HK\$785,000. The reason for the decrease in profit is due to increase in operating expenses that outpaced 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. The Swiss market was suffered in the first nine months 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.

PROSPECTS

Although the Group recorded higher sales in of the Group's synthetic sapphire watch crystals in 2002, the overall demand for synthetic sapphire watch crystals was low for the nine months ended 30th September 2002. The Board did not expect sales and orders in the last quarter of 2002 will improve further. However, the Board did expect to obtain more orders in the second quarter of 2003 as its research and development work on cyclope becomes operational.

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 is actively negotiating with two other prestigious Swiss wristwatch manufacturers and expects to enter into exclusive wristwatch distributorship agreements in the near future.

Economic in United States is still uncertain, and the price of ferrules dropped due to an imbalance of supply and demand. However, the Board believes the oversupply of ferrules is temporary and 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.

Mass production of ferrules will start in the fourth quarter of 2002. Production reached 100,000 pcs per month in October 2002 and gradually increase to full capacity by the first quarter of 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. In addition, the wristwatch distribution division will also contribute to the growth of the Group.

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 option under the Share Option Scheme to its directors and employees as follows:

	Options held at 1 Januray 2002	Options granted during the year <i>Note</i>	Options held at 30 September 2002	Exercise price <i>HK\$</i>	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

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 model¹, the value of share options granted on 6 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 6 June 2002;
2. risk-free interest rate: 5.76%, being the corresponding yield of 10-year Exchange Fund Note traded on 6 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, 10 August 2001, to 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.

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 reduced significantly.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September, 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 through his holding of the entire issued share capital of and in Grandford Holdings Limited	13.33%
Mr. Liao Ko Ping (<i>Note 1</i>)	1,233,336	personal interests	0.21%
Ms. Ma Chin Jong (<i>Note 1</i>)	195,000,000	corporate interests through her holding of the entire issued share capital of and in Dynasty Resources Limited	32.50%

Save as disclosed above and herein, 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 September, 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% of the issued share capital of the Company. On 26th July 2002, Ms. Ma Chin Jong resigned from the post of Director of the Company. On 8th October 2002, Ms. Ma Chin Jong transferred the entire issued share capital of and in Dynasty Resources Limited to Mr. Liao Ko Ping

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SECURITIES

As at 30th September, 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons (in addition to interest of 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. (<i>Note 1</i>)	74,776,666	12.46%

Note 1. 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 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, 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 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% or more of the entire issued share capital of the Company as at 30th September, 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 September, 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.

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

Up to 30th September, 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 September, 2002, 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 September, 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 September, 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 12th November, 2002 to discuss matters in relation to the 3rd quarter report ended 30th September, 2002.

By Order of the Board
Liao Lien Shen
Chairman

Hong Kong, 12th November, 2002