



**FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED**

**東光集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**2003 First Quarterly Report**

\* *For identification purpose only*

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

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*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, 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.*

## HIGHLIGHTS

1. The Group has recorded total turnover of approximately HK\$16,875,000 for the three months ended 31st March, 2003.
2. The Group has recorded a net profit attributable to shareholders for the three months ended 31st March, 2003 of approximately HK\$598,000, representing a basis earning per share of HK\$0.10 cent.
3. The Directors do not recommend the payment of a dividend for the three months ended 31st March, 2003.

## QUARTERLY FINANCIAL RESULTS (UNAUDITED)

The board of directors (the “Board” and “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 ended 31st March, 2003, together with the comparative unaudited figures for the corresponding period in 2002 as follows:

	<i>Notes</i>	<b>Three months ended</b>	
		<b>31st March</b>	
		<b>2003</b>	2002
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>16,875</b>	9,274
Cost of sales		<b>(13,011)</b>	(6,931)
Gross profit		<b>3,864</b>	2,343
Other revenues		<b>0</b>	14
Operating expenses			
Distribution costs		<b>(292)</b>	(146)
Administrative expenses		<b>(2,025)</b>	(1,765)
Other operating expenses		<b>(298)</b>	(252)
Operating profit		<b>1,249</b>	194
Finance costs		<b>(167)</b>	(74)
Profit before taxation		<b>1,082</b>	120
Taxation	3	<b>(484)</b>	(20)
Profit after taxation		<b>598</b>	100
Basic earnings per share	4	<b>0.10 cent</b>	0.02 cent
Diluted earnings per share	4	<b>0.10 cent</b>	N/A

## BASIS OF PREPARATION

### 1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are as per audited report 2002.

### 2. Turnover

Turnover comprised the net invoiced value (excluding value-added tax) of merchandise sold net of allowances for returns and discounts.

### 3. Taxation

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

		For the three months ended 31st March	
		2003	2002
	Notes	HK\$'000	HK\$'000
Hong Kong profit tax	(i)	464	10
Overseas taxation	(ii)	<u>20</u>	<u>10</u>
		<b><u>484</u></b>	<b><u>20</u></b>

Notes:

- (i) Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 16%) on the respective estimated assessable profits of companies within the Group operating in Hong Kong during the year.
- (ii) Overseas taxation represented tax charge on the estimated assessable profits of a subsidiary and a Taiwan branch operating in the People's Republic of China (the "PRC") and Taiwan respectively, calculated at rates prevailing in the respective countries.

One subsidiary which operates in the PRC is subject to income tax rate of 30% (2001: 15%) on its taxable profit. The subsidiary has been granted full exemption from the enterprise 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 next three years.

The branch of the Group which operates in Taiwan is subject to an income tax rate of 30% on any estimated assessable profits. The Taiwan branch was closed in 2002 and has no assessable profit chargeable to income tax for the three months ended 31st March, 2002.

- (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 the basic earning per share for the three months ended 31st March, 2003 is based on the Group's unaudited consolidated profit attributable to shareholders of HK\$598,000 and the weighted average number of 600,000,000 ordinary shares in issue during the quarter.

The calculation of the basic earning per share for the three months ended 31st March, 2002 is based on the Group's unaudited consolidated profit attributable to shareholders of HK\$100,000 and the weighted average number of 600,000,000 ordinary shares in issue during the quarter.

The diluted earnings per share for the three months ended 31st March, 2003 is calculated based on the profit of HK\$598,000 and the 613,069,307 ordinary shares deemed to be in issue during the year. The additional 13,069,307 ordinary shares represented deemed free shares issued due to the difference between the fair market 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.

Diluted earnings per share is not presented for the first quarter of 2002 as the Company had no potential dilutive ordinary shares at 31st March, 2002.

#### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2003 (2002: Nil).

#### **BUSINESS REVIEW**

Total turnover of the Group for the three months ended 31st March 2003 amounted to approximately HK\$16,875,000, representing a 82.0% increase from that of approximately HK\$9,274,000 generated in the corresponding period in 2002. Profit attributable to shareholders of the Group for the three months ended 31st March, 2003 was approximately HK\$598,000 while that of the corresponding period in 2002 was approximately HK\$100,000. The reason for the increase in profit is mainly due to the contribution from the newly established watch distribution division.

#### **Sapphire watch crystals division**

The turnover of the sapphire watch crystals for the three months ended 31st March 2003 was approximately HK\$10,771,000 (2002: approximately HK\$9,724,000) representing an increase of approximately HK\$1,047,000.

#### **Watches distribution division**

The Group started a watch distribution division in September 2002 and recorded a turnover of approximately HK\$5,574,000 for the three months ended 31st March 2003 (2002: Nil).

## Optoelectronics products division

The Group recorded a turnover of approximately HK\$530,000 for the three months ended 31st March 2003 (2002: Nil).

## PROSPECTS

The Board expects that the demand for synthetic sapphire watch crystals will decrease in the second quarter of 2003 due to the sluggish consumer spending as a result of the global economic slow down and the uncertainty caused by the Severe Acute Respiratory Syndrome (“SARS”). However, orders for synthetic sapphire watch crystals is expected to rebound in the third quarter of 2003, in pace with economic recovery in the US.

The Group signed another distributorship agreements with a Swiss wristwatch manufacturer in April 2003. Although the spread of SARS in Taiwan will reduce the sales of watches temporarily, the Board expects the watch distribution division to contribute positively to the Group’s net profit for 2003.

The Group started to record sales of ferrules in the first quarter of 2003 and the Board expects to increase production and sales of ferrules in the second quarter of 2003. The Group expects to broaden its range of optoelectronic products and enter the coupler market in the second half of 2003.

## 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 Prospectus. The Company has granted a total of 60,000,000 share options under the Share Option Scheme to its directors and employees as follows:

	Options held at 1st January 2003	Options granted during the period <i>Note</i>	Options held at 31st March 2003	Exercise price <i>HK\$</i>	Grant Date	Exercisable from	Exercisable until
Liao Ko Ping	30,000,000	—	30,000,000	0.158	6th June 2002	6th June 2005	6th June 2012
Liao Lien Shen	19,000,000	—	19,000,000	0.158	6th June 2002	6th June 2005	6th June 2012
Continuous Contract employees	11,000,000	—	11,000,000	0.158	6th June 2002	6th June 2005	6th June 2012

*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<sup>1</sup>, 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, 10th 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.

<sup>1</sup> 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 31st March, 2003, 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 of Director		No. of Shares held				Total
		Personal Interest	Family Interest	Corporate Interest	Other Interest	
	<i>Note</i>					
Mr. Liao Lien Shen	1	—	—	80,000,000	—	80,000,000
Mr. Liao Ko Ping	2	1,233,336	—	195,000,000	—	196,233,336

Notes:

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

Save as disclosed above 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 31st March 2003.

## SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SECURITIES

As at 31st March 2003, 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 and Mr. Liao Ko Ping 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 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 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 31st March 2003.

#### **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 31st March 2003, 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 three months ended 31st March 2003.

#### **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the three months ended 31st March 2003.

#### **COMPETING INTERESTS**

As at 31st March 2003, none of the directors or the management shareholders (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

#### **INTERESTS OF SPONSORS**

As at 31st March 2003, TIS Securities (HK) Limited ("TIS Securities"), one of the Company's sponsors, and Taiwan International Capital (HK) Limited, a wholly owned subsidiary of TIS Securities, held 13,760,000 Shares and 19,400,000 Shares respectively.

Pursuant to the sponsors' agreement entered into between the Company, TIS Securities and CSC Asia Limited ("CSC Asia"), TIS and CSC Asia are entitled to receive a fee for acting as the Company's continuing sponsors for the period from 10th August 2001 to 31st December 2003.

The Company and TIS mutually agreed to terminate the engagement of TIS as continuing sponsor with effect from 12th May 2003. The other continuing sponsor of the Company, CSC Asia, became the sole continuing sponsor with effect from 12th May 2003.

Save as disclosed above, TIS Securities, CSC Asia, their directors, employees and associates do not have any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

## **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 authorities and duties. The audit committee's principal duties are to review and supervise the financial reporting process and internal control systems of the Group. 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 15th May, 2003 to review matters in relation to the 1st quarter report ended 31st March prior to recommending such accounts to the Board for approval.

On Behalf of the Board  
**Liao Lien Shen**  
*Chairman*

Hong Kong, 15th May 2003