



**FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED**

**東光集團有限公司\***

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

**2003 Third 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

- The Group has recorded total turnover of approximately HK\$39,013,000 for the nine months ended 30th September, 2003.
- The Group has recorded a net loss attributable to shareholders for the nine months ended 30th September, 2003 of approximately HK\$1,232,000, representing a basis loss per share of HK\$0.21 cent.
- The Directors do not recommend the payment of a dividend for the nine months ended 30th September, 2003.

## QUARTERLY FINANCIAL RESULTS (UNAUDITED)

The board of directors (the “Board”) 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 the nine months ended 30th September, 2003, together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	<b>8,858</b>	11,118	<b>39,013</b>	32,828
Cost of sales		<b>(8,230)</b>	(7,309)	<b>(32,042)</b>	(23,482)
Gross profit		<b>628</b>	3,809	<b>6,971</b>	9,346
Other revenues		<b>16</b>	0	<b>24</b>	19
Operating expenses					
Distribution costs		<b>(334)</b>	(293)	<b>(814)</b>	(694)
Administrative expenses		<b>(2,000)</b>	(2,219)	<b>(5,861)</b>	(6,123)
Other operating expenses		<b>(318)</b>	(821)	<b>(990)</b>	(1,596)
Operating (loss)/profit		<b>(2,008)</b>	476	<b>(670)</b>	952
Finance costs		<b>(191)</b>	(101)	<b>(550)</b>	(253)
(Loss)/profit before taxation		<b>(2,199)</b>	375	<b>(1,220)</b>	699
Taxation	3	<b>441</b>	(62)	<b>(12)</b>	(115)
(Loss)/profit after taxation		<b><u>(1,758)</u></b>	<u>313</u>	<b><u>(1,232)</u></b>	<u>584</u>
Basic (loss)/earnings per share	4	<b><u>(0.29) cent</u></b>	<u>0.05 cent</u>	<b><u>(0.21) cent</u></b>	<u>0.10 cent</u>
Diluted (loss)/earnings per share	4	<b><u>(0.29) cent</u></b>	<u>0.05 cent</u>	<b><u>(0.20) cent</u></b>	<u>0.10 cent</u>

Notes:

## BASIS OF PREPARATION

### 1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are consistent with those used in the preparation of the Group's 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 nine months ended 30th September,	
		2003	2002
	Notes	HK\$'000	HK\$'000
Hong Kong profit tax	(i)	—	105
Overseas taxation	(ii)	12	30
Overprovisions in prior years		—	(20)
		<u>12</u>	<u>115</u>

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 areas.

One subsidiary which operates in the PRC is subject to income tax rate of 30% (2002: 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.

- (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. Loss/earnings per share**

The calculation of the basic loss per share for the nine months ended 30th September, 2003 is based on the Group's unaudited consolidated loss attributable to shareholders of HK\$1,232,000 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 nine months ended 30th September, 2002 is based on the Group's unaudited consolidated profit attributable to shareholders of HK\$584,000 and the weighted average number of 600,000,000 ordinary shares in issue during the quarter.

The diluted loss per share for the nine months ended 30th September, 2003 is calculated based on the loss of HK\$1,232,000 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.

The diluted earnings per share for the nine months ended 30th September, 2002 is calculated based on the profit 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 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.

#### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2003 (2002: Nil).

#### **MANAGEMENT DISCUSSION AND ANALYSIS**

##### **Business Review**

For the nine months ended 30th September, 2003, the Group recorded a turnover of approximately HK\$39,013,000 (2002: approximately HK\$32,828,000). Loss attributable to shareholders of the Group for the nine months ended 30th September, 2003 was approximately HK\$1,232,000 while profit attributable to shareholders of the Group for the corresponding period in 2002 was approximately HK\$584,000. The reason for the decrease in profit is due to loss incurred by the ferrules division which cannot be compensated by the additional profit generated by the watch distribution division. In addition, reduced sales in the synthetic sapphire watch crystal division also increased the loss.

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

The turnover of the sapphire watch crystals for the nine months ended 30th September, 2003 was approximately HK\$26,900,000 (2002: approximately HK\$30,519,000) representing a decrease of approximately HK\$3,619,000 which was mainly due to reduction in sales to Hong Kong customers.

### **Watches distribution division**

The Group started a watch distribution division in September 2002 and recorded a turnover of approximately HK\$9,383,000 for the nine months ended 30th September, 2003 (2002: approximately HK\$2,309,000).

### **Optoelectronics products division**

The Group's optoelectronics products division recorded a turnover of approximately HK\$2,730,000 for the nine months ended 30th September, 2003 (2002: Nil).

### **Prospects**

The Group recorded lower sales in synthetic sapphire watch crystals in 2003 mainly due to fierce competition in the Hong Kong market and the aftermath of the Severe Acute Respiratory Syndrome ("SARS"). The Board expects that competition in the Hong Kong market will still be very keen and the sales in the last quarter of 2003 will be weak. However, the Board would negotiate with its major material supplier to obtain cost concession to help the Group to be more cost competitive in the Hong Kong market. Demand for synthetic sapphire watch crystals from Swiss customers in the fourth quarter will be weak due to uncertainty in consumer spending on luxury items.

The aftermath of SARS in Taiwan reduced the sales of watches in the third quarter of 2003. However, the Board expects that the watch distribution division will generate more revenues in the fourth quarter and contribute positively to the Group's net profit for 2003.

Mass production of ferrules started in the first quarter of 2003 and achieved sales of approximately HK\$2,730,000 for the nine months ended 30th September, 2003. It is expected that production and sales will reach 200,000 pieces per month in October 2003. The Board expects to broaden its range of optoelectronic products and enter the sleeves market before the end of 2003. A co-operative arrangement was entered with a renowned Japanese company to produce sleeves.

The Board is optimistic about the Group's future performance as the Group is working hard to regain its competitiveness in the synthetic sapphire watch crystals market and started mass production of ferrules in 2003. The introduction of sleeves 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 options under the Share Option Scheme to its directors and employees as follows:

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

## DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SECURITIES

As at 30th September, 2003, 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

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

#### 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, as at 30th September, 2003, 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 30th September, 2003, 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.

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of issued share</b>
OMAX Technologies Inc.	Beneficial owner	74,776,666 ( <i>Note 1</i> )	12.46%
TIS Securities (HK) Limited	Beneficial owner	13,760,000	2.29%
	Interests in controlled corporation	19,400,000 ( <i>Note 2</i> )	3.23%

### *Notes:*

- 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.
- 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 30th September, 2003, 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 30th September, 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 nine months ended 30th September, 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 nine months ended 30th September, 2003.

## **COMPETING INTERESTS**

During the nine months ended 30th September, 2003, 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.

## **INTERESTS OF SPONSORS**

Pursuant to the sponsors' agreement entered into between the Company, CSC Asia Limited ("CSC Asia") and TIS Securities (HK) Limited ("TIS Securities"), CSC Asia and TIS Securities were entitled to receive a fee for acting as the Company's continuing sponsors for the period from 10th August, 2001 to 31st December, 2003. With reference to the Company's announcement dated 12th May, 2003, the Company and TIS Securities have mutually agreed to terminate the engagement of TIS Securities as continuing sponsor with effect from 12th May, 2003. The other continuing sponsor of the Company, CSC Asia, became the sole continuing sponsor of the company with effect from 12th May, 2003.

Save as disclosed above, as at 30th September, 2003, 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 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 14th November, 2003 to discuss matters in relation to the interim report for 3rd quarter ended 30th September, 2003.

By Order of the Board  
**Liao Ko Ping**  
*Managing Director*

Hong Kong, 14th November, 2003