



FAST SYSTEMS TECHNOLOGY (HOLDINGS) LIMITED

東光集團有限公司*

(incorporated in the Cayman Islands with limited liability)

2004 First 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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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\$9,202,000 for the three months ended 31st March, 2004.
2. The Group has recorded a net loss attributable to shareholders for the three months ended 31st March, 2004 of approximately HK\$144,000, representing a basis loss per share of HK\$0.02 cent.
3. The Directors do not recommend the payment of a dividend for the three months ended 31st March, 2004.

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 ended 31st March, 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

| | | Three months ended | |
|-----------------------------------|--------------|---------------------------|-----------------|
| | | 31st March, | |
| | | 2004 | 2003 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Turnover | 2 | 9,202 | 16,875 |
| Cost of sales | | (6,458) | (13,011) |
| Gross profit | | 2,744 | 3,864 |
| Other revenues | | 1 | 0 |
| Operating expenses | | | |
| Distribution costs | | (130) | (292) |
| Administrative expenses | | (2,118) | (2,025) |
| Other operating expenses | | (363) | (298) |
| Operating (loss)/profit | | 134 | 1,249 |
| Finance costs | | (292) | (167) |
| (Loss)/profit before taxation | | (158) | 1,082 |
| Taxation | 3 | 14 | (484) |
| (Loss)/profit after taxation | | (144) | 598 |
| Basic (loss)/earnings per share | 4 | (0.02) cent | 0.10 cent |
| Diluted (loss)/earnings per share | 4 | (0.02) cent | 0.10 cent |

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 2003.

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, | |
|-------------------------------|--------------|---|-----------------|
| | | 2004 | 2003 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong profit tax | (i) | (14) | 464 |
| Overseas taxation | (ii) | — | 20 |
| Overprovisions in prior years | | — | — |
| | | <u>(14)</u> | <u>484</u> |

Notes:

- (i) Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) 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 two subsidiaries operating in the People's Republic of China (the "PRC"), calculated at rates prevailing in the respective areas.

One subsidiary which operates in the PRC is subject to income tax rate of 15% (2003: 15%) on its taxable profit. Another subsidiary has been granted full exemption from the enterprise income tax for two years from its first profit-making year, followed by a 50% reduction in tax rate for the next three years. This subsidiary were in loss-making position for both periods under review and accordingly did not have any taxable profit.

- (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 three months ended 31st March, 2004 is based on the Group's unaudited consolidated loss attributable to shareholders of HK\$144,000 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, 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.

For the three months ended 31st March, 2004, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and convertible notes since their exercise would result in a decrease in loss per share from continuing ordinary operations.

The diluted earning 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 13,069,307 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 three months ended 31st March, 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 31st March, 2004, the Group recorded a turnover of approximately HK\$9,202,000 (2003: approximately HK\$16,875,000). Loss attributable to shareholders of the Group for the three months ended 31st March, 2004 was approximately HK\$144,000 while profit attributable to shareholders of the Group for the corresponding period in 2003 was approximately HK\$598,000. The reason for the change from profit to loss is due to reduced sales in the synthetic sapphire watch crystal division and reduced sales in the watch distribution division. Ferrules division turned in a small profit due to increased sales and reduced depreciation cost provision based on impaired fixed asset values.

Sapphire watch crystals division

The turnover of the sapphire watch crystals for the three months ended 31st March, 2004 was approximately HK\$6,753,000 (2003: approximately HK\$10,771,000) representing a decrease of approximately HK\$4,018,000 which was mainly due to reduction in sales to Swiss customers.

Watches distribution division

The Group's watch distribution division recorded a turnover of approximately HK\$761,000 for the three months ended 31st March, 2004 (2003: approximately HK\$5,574,000) representing a decrease of approximately HK\$4,813,000. The significant reduction in sales was mainly due to lack of new watch models introduced during first quarter of 2004.

Optoelectronics products division

The Group's optoelectronics products division recorded a turnover of approximately HK\$1,688,000 for the three months ended 31st March, 2004 (2003: approximately HK\$530,000).

PROSPECTS

The Group recorded lower sales in synthetic sapphire watch crystals in first quarter of 2004 mainly due to weak demand from Swiss customers due to uncertainty in consumer spending on luxury items. The Swiss watch industry is optimistic about the demand in 2004 and the value of orders received by the Group for delivery in the second quarter of 2004 was higher than that of first quarter of 2004.

Sales of watches in the first quarter of 2004 was drastically reduced due to lack of new models available for sale. However, the Board expects that the watch distribution division will generate more revenues in the second quarter with more watch models available in the second and third quarters of 2004, and contribute positively to the Group's net profit for 2004.

Mass production of ferrules started in the first quarter of 2003 and achieved sales of approximately HK\$1,688,000 for the three months ended 31st March, 2004. It is expected that production and sales in second quarter of 2004 will exceed that of the first quarter of 2004.

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, 2004 | Options granted during the year | Options held at 31st March, 2004 | 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 |

CONVERTIBLE NOTES

On 2nd January, 2004, the Company issued to Shuttle Inc., a company incorporated in Taiwan and listed in the Taiwan Stock Exchange, is an independent third party to the Company, a Convertible Note (in the principal amount of US\$1,000,000) bears interest at the rate of 6 % per annum and will mature on 30th June, 2006. The principal amount of the Convertible Note can be converted in full into 78,000,000 Conversion Shares at a conversion price of HK\$0.10 per Share.

The Conversion Shares (assuming conversion in full of the Convertible Note at the conversion price) represent approximately 13.00% of the existing issued ordinary share capital of the Company and approximately 11.50% of the issued ordinary share capital of the Company as enlarged by the Conversion Shares (assuming that up to the date of Completion, there will be no change in the issued ordinary share capital of the Company).

| | Convertible Note held at 1st January, 2004 | Convertible Note issued during the year | Convertible Note held at 31st March, 2004 | Conversion price HK\$ | Issue Date | Convertible from | Convertible until |
|--------------|--|---|---|-----------------------------|-------------------|---------------------|----------------------|
| Shuttle Inc. | — | US\$1,000,000 | US\$1,000,000 | 0.10 | 2nd January, 2004 | 2nd January, 2004 | 30th June, 2006 |

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st March, 2004, 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 | | | Other Interest | Total |
|--------------------|------|--------------------|-----------------|--------------------|----------------|-------------|
| | | Personal Interest | Family Interest | Corporate Interest | | |
| 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:

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 31st March, 2004, 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 31st March, 2004, 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 31st March, 2004, 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 31st March, 2004, 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, 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the three months ended 31st March, 2004.

COMPETING INTERESTS

During the three months ended 31st March, 2004, 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.

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. The audit committee comprises three independent non-executive directors, namely Mr. Tam Yeung Kai, Vicko, Mr. Cheng, Isaac and Mr. Lam Ngai Ming. The chairman of the audit committee is Mr. Tam Yeung Kai, Vicko.

The audit committee last met on 28th September, 2004 to discuss matters in relation to the interim report for first quarter ended 31st March, 2004.

By Order of the Board
Liao Ko Ping
Managing Director

Hong Kong, 28th September, 2004