

QUASAR
Communication
Technology
Holdings
Limited



COMMUNICATION TECHNOLOGY

Interim
Report
2002

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 of 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 announcement 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 announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the “Directors”) of QUASAR Communication 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 (“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 announcement is accurate and complete in all material respects and not misleading; (2) there are on other matters the omission of which would made any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on base and assumptions that are fair and reasonable.

HALF YEAR RESULTS FOR THE PERIOD ENDED 30 JUNE 2002

Three Months Ended 30 June	2002	2001
• Group Turnover	HK\$316,918,000	HK\$126,883,000
• Group Profit/(Loss)	HK\$7,680,000	HK\$(217,000)
• Earnings/(Loss) Per Share	2.54 cents	(0.07) cent
Six Months Ended 30 June	2002	2001
• Group Turnover	HK\$654,974,000	HK\$126,883,000
• Group Profit/(Loss)	HK\$10,810,000	HK\$(254,000)
• Earnings/(Loss) Per Share	3.57 cents	(0.08) cent

HIGHLIGHTS

- Exponential growth in turnover and profitability in the six months ended 30 June 2002 compared to the same period in 2001.
- The Group benefited from the development of telecommunication market in the PRC especially CDMA.
- Actively engaged in the development of software for CDMA2000 1x cellular phones, digital product prototype and further developing the commercialisation of PDA phones.
- To enhance its capability in providing technical support services, the Group is establishing its representative office in Shenzhen to take up the functions of the subcontracted support house.
- The Group commenced and is in the process of developing CDMA2000 1x cellular phones solutions with designed features of colour display and bandwidth of 307 Kbps high-speed voice and data transmission.

INTERIM RESULT

On behalf of the board of the directors (the "Directors") of QUASAR Communication Technology Holdings Limited (the "Company"), I am pleased to present the unaudited operating results of the Company and its subsidiaries (collectively, the "Group" or "QUASAR") for the six months (the "Half-Yearly Period") and the three months (the "Quarterly Period") ended 30 June 2002.

Half-Yearly Period

The unaudited combined profit of the Group for the Half-Yearly Period was approximately HK\$10,810,000, as compared to the unaudited combined loss of the Group of approximately HK\$254,000 for the corresponding half-yearly period in 2001. Unaudited combined turnover of the Group for the Half-Yearly Period was approximately HK\$655 million, representing an increase of about 416% over the unaudited combined turnover of the Group of approximately HK\$127 million for the corresponding half-yearly period in 2001.

The unaudited net profit margin of the Group was approximately 1.65% for the Half-Yearly Period which was higher than the unaudited net loss margin of the Group of approximately 0.20% for the corresponding half-yearly period in 2001. The unaudited earnings per share was about HK3.57cents for the Half-Yearly Period (2001: loss per share HK(0.08) cent).

Quarterly Period

The unaudited combined profit of the Group for the Quarterly Period was approximately HK\$7,680,000, as compared to the unaudited combined loss of the Group of approximately HK\$217,000 for the corresponding quarterly period in 2001. Unaudited combined turnover of the Group for the Quarterly Period was approximately HK\$317 million, representing an increase of approximately 150% over the unaudited combined turnover of the Group of HK\$127 million for the corresponding quarterly period in 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

QUASAR uniquely established the business of provision of one-stop service to clients, including software development, technology consultation, hardware procurement and after-sales technical support with the vision of tailored the needs of the emerging telecommunication market in the People's Republic of China (the "PRC"), which led the Company to achieve a significant growth in after tax net profit to approximately HK\$10,810,000 for the Half-yearly Period, and reported a turnover of HK\$655 million. The vigorous results were principally contributed by the enlarging business operation commencing the second half of 2001, the conclusion of more cellular phones solution contracts from early 2002 onwards, and the increasing demand of local branded cellular phones in the PRC market. The Group is aggressively negotiating new contracts with clients and had already secured 7 contracts on hand with product delivery schedule up to the 2nd quarter of 2003.

The Group continues to adopt the "nil inventory" policy in avoiding the risk of stock obsolescence and arrange the letter of credit on a back-to-back basis for the sales and hardware procurement transactions whereby QUASAR had minimal risk of default. As at 31 December 2001 and 30 June 2002, the Group had no bank borrowings and therefore no gearing in

terms of interest bearing liabilities over the Group's total equity. The Group also had no committed borrowing facilities and any contingent liabilities, and hence no charge on group assets had been arranged. The Group maintained a healthy liquidity position with a current ratio of more than 1 times as at 31 December 2001 and 30 June 2002. While QUASAR generates the funding mainly from its principal activities of provision of cellular phones solutions, it has little exposure to foreign exchange fluctuations as most of the Group's monetary assets are denominated in US dollars and Hong Kong dollars, and the revenue receipts, and costs and expenses payments are principally denominated in US dollars and Hong Kong dollars.

Other than those disclosed in the section headed "Statement of Business Objectives" to the Company's prospectus dated 25 July 2002, the Group has no other plan for material investments or capital assets.

Other than those disclosed in note 1 "Group reorganisation and basis of preparation" of the "Notes to condensed accounts", there had not been any material acquisitions and disposals of subsidiaries during the Half-Yearly Periods and the Quarterly Periods ended 30 June 2002 and 30 June 2001.

Business Review

Cellular phones solutions and software development

CDMA2000 1x cellular phones

The Group commenced and is in the process of developing CDMA2000 1x cellular phones solutions with designed features of colour display and had bandwidth of 307 Kbps high speed voice and data transmission. The software and hardware development, together with the field testing for the CDMA2000 1x cellular phones is expected to be completed in the 4th quarter of 2002.

PDA phones

The Group plans to develop a software for the combination of storage device with CDMA2000 1x cellular phones compliant with the CDMA2000 1x network in the PRC. The software developed by the Group embedded in the PDA phone supports Internet access, mobile email, scheduler, business and multimedia applications. The technical specification of the 1st generation PDA phone was completed in April 2002 on schedule and a working sample of PDA phones has been completed. The field test will be carried out for type approval in the 4th quarter of 2002 after the completion of the engineering sample in the 3rd quarter of 2002.

Korea Programming Team

To focus on software engineering design, the Group entered into an agreement with a Korea programming team who provides all necessary technical knowledge, concept, design and technology for the research and development of cellular phone handsets. The team performs certain software programming tasks under the supervision of QUASAR. The agreement was expired on 30 June 2002 and the Group is in the progress of recruiting its own programming team.

Expansion of technical support capability

Accommodating the burgeoning cellular phone market, QUASAR has aggressively expanded and strengthened the management and technical support team and operating scale at the same pace. The operating expenses increased from approximately HK\$1,171,000 for the six months in 2001 to approximately HK\$4,522,000 for the same period in 2002, representing an increase of 286% with around 55% as the staff costs. Leveraging the comprehensive experience and technical expertise of our professional people, the Group has had, and believes with great confidence in coming quarters, that such investment in human capital will bring more favourable return in fiscal impact.

To enhance the capability in providing technical support services, the Group is in the process of establishing its representative office in Shenzhen to take up functions of a subcontracted support house in Shenzhen. To maintain continuity, staff members of the support house will be recruited by the representative office. Upon the completion of the establishment, the technical support team of the representative office will consist of about 12 staff, out of which 9 staff will provide technical support and engineering service to cellular phone companies. The representative office is expected to commence operation in the 4th quarter of 2002.

Human resources deployment

As at 30 June 2001 and 30 June 2002, the Group had a total of 3 and 13 full time employees respectively in South Korea and Hong Kong. The remuneration of the Group's employees includes basic salaries, housing allowance, medical coverage, insurance plan, pension fund scheme, discretionary bonus and employee share option scheme. The increase in staff costs of approximately HK\$2,427,000 to about HK\$2,505,000 was due to the expansion of business operation and set up of subsidiaries in the second half of the year 2001.

Prospects

Amid the imminent accession of China as the World Trade Organization member nation and robust economic growth, the development of the CDMA network ranks high on the PRC government's "Tenth Five-Year Plan". Demand for higher quality telecommunication services is expected to spiral. Capitalizing on its intimate knowledge of the PRC market, the Group is dedicated to fully utilize its advanced Korean CDMA technology to continually upgrade its service.

QUASAR will continue seeking investment opportunities and strategic partners that complement our businesses. The Group is under negotiation with independent third parties for a joint venture in the design, development, manufacture and sale of CDMA2000 1x repeaters in the PRC. While the CDMA network infrastructure is expected to be ready by 2003, the Group is committed and already in position to deliver our strength through this co-operation. It is expected that the investment to be financed by the listing proceeds and the operation of the joint venture will significantly expand in the coming year and make a rewarding contribution to the Group.

One of the QUASAR's focuses is to expand the clientele of cellular phone solutions to include those outside the PRC. The Group plans to use both part of the listing proceeds and internal generated fund to establish an office in Singapore in short future to cater the Asia Pacific region including Malaysia, Indonesia, Thailand, Vietnam and Singapore itself, where certain of them have already made official announcement of its commercialization of CDMA network in coming years.

Growing profitability is a strong drive for us to excel. The market share of local brand cellular phone reached 17.7% by June and it is expected to increase to 20% by the end of 2002. The growth in market share indicates the increasing competitiveness of the PRC cellular phone manufacturers as well as the trend of product localization; local cellular phone manufacturers have to seek for outsourced software solution design. Taking advantage of the business opportunity, especially for CDMA and its advanced version CDMA2000 1x which there are only 19 approved manufacturers with certain of them having only the GSM technology, QUASAR, already engaged in the business from the year 2000, enjoys an early presence in the PRC market and is able to secure its market position as one of the leading solution providers in meeting the booming market demand.

Following the successful listing of the Company on GEM on 31 July 2002 and raised approximately HK\$52.8 million through the placing of around 81 million new Shares, QUASAR will place more efforts on product development and venture further to secure a larger clientele in Asian Pacific countries for its state-of-the-art Korean CDMA technology, and we are confident in creating fruitful values and returns to our shareholders.

BUSINESS OBJECTIVE REVIEW

As this interim report covered activities for the Half-Yearly Period up to 30 June 2002, save as disclosed above, all business objectives stated in the paragraphs headed "Business strategies" and "Implementation plans" both under the section headed "Statement of business objectives" of the Company's prospectus dated 25 July 2002 are still in progress and no further update is applicable.

Condensed Combined Income Statement

The unaudited combined results of the Group for the Half-Yearly Period and the Quarterly Period, together with the unaudited comparative figures for the corresponding periods in 2001 are as follows:

	Notes	Unaudited			
		Six months ended		Three months ended	
		30 June		30 June	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	654,974	126,883	316,918	126,883
Contract costs		(639,081)	(125,967)	(306,606)	(125,967)
		15,893	916	10,312	916
Other revenues	3	59	1	57	1
Other operating expenses		(4,522)	(1,171)	(2,069)	(1,134)
Operating profit/(loss)	5	11,430	(254)	8,300	(217)
Taxation	7	(620)	–	(620)	–
Profit/(loss) for the period		<u>10,810</u>	<u>(254)</u>	<u>7,680</u>	<u>(217)</u>
Earnings/(loss) per share	8				
– Basic (HK cents)		<u>3.57</u>	<u>(0.08)</u>	<u>2.54</u>	<u>(0.07)</u>

Condensed Combined Balance Sheet

The unaudited combined balance sheet as at 30 June 2002, together with the audited balance sheet as at 31 December 2001 are as follows:

	<i>Notes</i>	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
PROPERTY, PLANT AND EQUIPMENT		<u>529</u>	<u>529</u>
CURRENT ASSETS			
Inventories		3,275	22,269
Trade receivables	10	172,054	40,317
Deposits and prepayments		6,910	195
Due from shareholders		25	25
Cash and bank balances		<u>2,243</u>	<u>2,355</u>
		<u>184,507</u>	<u>65,161</u>
CURRENT LIABILITIES			
Due to shareholders		1,142	1,308
Due to a related company		2,948	3,844
Trade payables	11	164,244	56,459
Other payables		1,200	138
Tax payables		<u>620</u>	<u>–</u>
		<u>170,154</u>	<u>61,749</u>
NET CURRENT ASSETS		<u>14,353</u>	<u>3,412</u>
NET ASSETS		<u>14,882</u>	<u>3,941</u>
Financed by:			
SHARE CAPITAL	12	80	70
RESERVES		<u>14,802</u>	<u>3,871</u>
SHAREHOLDERS' FUNDS		<u>14,882</u>	<u>3,941</u>

Condensed Combined Cash Flow Statement

The unaudited combined cash flow statement for the Half-Yearly Period, together with the unaudited comparative figures for the corresponding period in 2001 are as follows:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Net cash used in operating activities	(168)	(10,248)
Net cash from investing activities	5	1
Net cash from financing activities	20	11,087
(Decrease)/increase in cash and cash equivalents	(143)	840
Cash and cash equivalents brought forward	2,355	–
Effect of foreign exchange rate changes	31	–
Cash and cash equivalents carried forward	<u>2,243</u>	<u>840</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>2,243</u>	<u>840</u>

Condensed Combined Statement of Movement in Equity

The unaudited combined statement of movement in equity for the Half-Yearly Period, together with the unaudited comparative figures for the corresponding period in 2001 are as follows:

	Unaudited				
	Share Capital	Share Premium	Exchange reserve	(Accumulated losses)/ retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2001	62	–	–	(9,138)	(9,076)
Loss attributable to shareholders	–	–	–	(254)	(254)
Issue of shares of Synerex Inc.	8	–	–	–	8
Premium on issue of shares of Synerex Inc.	–	11,079	–	–	11,079
	<u>70</u>	<u>11,079</u>	<u>–</u>	<u>(9,392)</u>	<u>1,757</u>
As at 30 June 2001	<u>70</u>	<u>11,079</u>	<u>–</u>	<u>(9,392)</u>	<u>1,757</u>
As at 1 January 2002	70	11,079	(56)	(7,152)	3,941
Profit attributable to shareholders	–	–	–	10,810	10,810
Issue of shares of Synerex Inc.	10	–	–	–	10
Exchange differences arising on translation of the accounts of an overseas subsidiary	–	–	121	–	121
	<u>80</u>	<u>11,079</u>	<u>65</u>	<u>3,658</u>	<u>14,882</u>
As at 30 June 2002	<u>80</u>	<u>11,079</u>	<u>65</u>	<u>3,658</u>	<u>14,882</u>

Notes to condensed accounts

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 4 April 2002, as an exempted company with limited liability, under the Companies Law of the Cayman Islands.

On 16 July 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 25 July 2002. The shares of the Company were successfully listed on GEM on 31 July 2002.

For the purpose of this report, the combined results, combined cash flow statements and combined statement of movement in equity of the Group for the Half-Yearly Period, include the results of the companies now comprising the Group as a results of the Reorganisation as if the current group structure had been in existence since 1 January 2001, or their respective dates of incorporation to 30 June 2002, whichever is the shorter period.

The combined balance sheets of the Group as at 31 December 2001 and 30 June 2002 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates.

All significant intra-group transactions and balances have been eliminated on combination.

2. Accounting policies

These unaudited combined condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

During the period, the Group has adopted the following revised or new SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting
SSAP 34:	Employee benefits

There is no material impact on the condensed financial statements of the Group by the adoption of the SSAPs mentioned above. The accounting policies and methods of computation used in the

preparation of these condensed interim financial statements are consistent with those used in the accountants' report as set out in the Company's prospectus dated 25 July 2002, except as follows:

(a) *SSAP 11 (revised): Foreign currency translation*

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

(b) *SSAP 34: Employee benefits*

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave. In prior periods, no provision was made for employee annual and long service leave entitlements as the amount was insignificant and no restatement was made for the comparative figures.

(ii) Pension obligations

The Group contributes to a defined contribution retirement scheme which is available to all employees in Hong Kong. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the company to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

3. Revenue and turnover

The principal activity of the Group is the provision of cellular phone solutions services. Revenues recognised during the Half-Yearly Period and the Quarterly Period, together with the comparative figures for the corresponding periods in 2001 are as follows:

	Six months ended 30 June		Three months ended 30 June	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Revenue from cost plus contracts	648,542	126,883	310,837	126,883
Consultancy income	6,432	–	6,081	–
	654,974	126,883	316,918	126,883
Other revenue				
Interest income	5	1	3	1
Others	54	–	54	–
	59	1	57	1
Total revenues	655,033	126,884	316,975	126,884

4. Segmental information

Over 90% of the Group's turnover and contribution to operating profit are attributable to the provision of cellular phones solutions, and accordingly no analysis of business segment is presented.

No geographical segments analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

As at 30 June 2002 and 31 December 2001, over 90% of the Group's assets are attributable to the business of provision of cellular phone solutions and to the PRC market.

5. Operating profit/(loss)

The operating profit/(loss) is stated after charging the following:

	Six months ended 30 June		Three months ended 30 June	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	180	–	90	–
Operating lease rental in respect of land and buildings	180	–	90	–
Depreciation	80	–	38	–
Total research and product development costs	1,247	3,723	624	1,725
Less: costs incurred for cost plus projects	(1,013)	(3,723)	(551)	(1,725)
Research and development costs charged to profit and loss account	<u>234</u>	<u>–</u>	<u>73</u>	<u>–</u>

Included in research and development costs were staff costs of approximately HK\$311,000 for the six months ended 30 June 2002 (2001: HK\$Nil) which has also been included in staff cost disclosed in note 6.

6. Staff costs

	Six months ended 30 June		Three months ended 30 June	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries	2,341	78	1,236	78
Pension costs	52	–	33	–
Others	112	–	67	–
	<u>2,505</u>	<u>78</u>	<u>1,336</u>	<u>78</u>

7. Taxation

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the six months ended 30 June 2001 and 2002.

Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the countries in which the subsidiary operates.

The amount of taxation charged to the condensed combined income statements represents:-

Six months ended		Three months ended	
30 June		30 June	
2002	2001	2002	2001
HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>

The charge comprises:

– Hong Kong Profits Tax

620	–	620	–
<u>620</u>	<u>–</u>	<u>620</u>	<u>–</u>

8. Earnings/(loss) per share

The calculation for the basic earnings per share for the Half-Yearly Period and the Quarterly Period are based on the unaudited combined profit attributable to shareholders of approximately HK\$10,810,000 and HK\$7,680,000 respectively, and the weighted average number of 302,655,500 shares. The corresponding half-year period and quarterly period in 2001 are based on the unaudited combined loss attributable to shareholders of approximately HK\$254,000 and HK\$217,000 respectively, and the weighted average number of 302,655,500 shares. In determining the weighted average number of shares, the 302,655,500 ordinary shares outstanding as a result of the Group's Reorganisation prior to the initial placing of its shares on 31 July 2002 are included in the calculation of the weighted average number of shares as if those shares had been in issue since 1 January 2001.

No diluted earnings/(loss) per share has been presented as the Company has no dilutive potential shares.

9. Interim dividends

The directors do not recommend the payment of an interim dividend for the Half-Yearly Period and the Quarterly Period.

The Group has not declared any dividends for the corresponding half-yearly period and quarterly period in 2001.

10. Trade receivables

The Group has a policy of allowing average credit period of 30 to 60 days to its trade customers. The ageing analysis of the trade receivables as at 30 June 2002 and 31 December 2001 were as follows:

	30 June 2002 <i>HK\$'000</i>	31 December 2001 <i>HK\$'000</i>
Within 30 days	171,677	39,306
31-60 days	–	1,011
Over 60 days	377	–
	<u>172,054</u>	<u>40,317</u>

11. Trade payables

As at 30 June 2002 and 31 December 2001, the ageing analysis of the trade payables was as follows:

	30 June 2002 <i>HK\$'000</i>	31 December 2001 <i>HK\$'000</i>
Within 30 days	164,244	55,489
31-60 days	–	970
	<u>164,244</u>	<u>56,459</u>

12. Share capital

At 30 June 2002, the Reorganisation has not yet been completed and accordingly the combined share capital of all companies now comprising the Group prior to the Reorganisation, after the elimination of certain intra-group holdings as at the balance sheet dates, is presented in lieu of the share capital of the Company for the purpose of this interim report.

13. Operating lease commitments

As at 30 June 2002 and 31 December 2001, the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings for each of the following periods:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Not later than one year	256,800	240,000
Later than one year and not later than five years	84,000	204,000
	<u>340,800</u>	<u>444,000</u>

Operating lease payments represent rentals payable by the Group for certain of its land and buildings.

14. Related party transactions

- (a) On 6 January, 2000, the Group had entered into an agreement with PNS Technology Limited ("PNS") for certain technical development programme. Pursuant to the agreement, the Group supplied PNS with all necessary technical knowledge and managed the development progress of the programme. PNS was responsible to supply all necessary facilities and human resources for implementation of the programme. The Group was required to pay research and development expenses to PNS on an actual reimbursement basis and upon the completion of programme, PNS was granted option to acquire certain percentage of the issued shares of a subsidiary of the Group. In this connection, a fellow subsidiary of PNS, i. Concept Inc., has subscribed 1,000 shares in Synerex Inc., representing 11% of its enlarged share capital, at a consideration of HK\$11,087,076 in June 2001. The consideration was determined according to an appraisal report issued by American Appraisal Hongkong Limited. The agreement was not renewed and the remaining option was cancelled upon expiration on 30 June 2001.
- (b) The Group has entered into a lease agreement with Pineview Industries Limited to lease office space commencing on 1 July 2001 at a monthly rental of HK\$30,000. The lease was charged at market rate.
- (c) A director of the Company, Mr. Ong Se Mon, was interested in the above transactions to the extent that he is a director and has beneficial interests in PNS and Pineview Industries Limited.

15. Subsequent events

Subsequent to 30 June 2002, the following significant events took place:

- (a) The companies now comprising the Group underwent Reorganisation in preparation for the listing of the Company's shares on GEM. Pursuant to the Reorganisation on 16 July 2002, the Company acquired the entire issued share capital of Ace Solution Technology Limited ("Ace Solution"), in consideration for the issue and allotment of 204,000 shares of the Company of HK\$0.01 each to the shareholders of Ace Solution. On 16 July 2002, the Company became the holding company of the Group accordingly;
- (b) On 30 July 2002, 103,596,000 shares of the Company of HK\$0.01 each were issued to the public by way of placing 81,251,500 new shares and 22,344,500 sales shares at HK\$0.65 each, for a total cash consideration of approximately HK\$67 million before related issuing expenses. The shares of the Company were successfully listed on GEM on 31 July 2002.

Save as aforesaid, no other significant events took place subsequent to 30 June 2002

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARE CAPITAL

As at 31 July 2002, the date of listing of the Company's shares on GEM, the interests of the Directors in the Shares of the Company as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

Name	Number of shares	Nature of interests	Percentage of interests
Mr. Jo Won Seob	32,500,000	corporate interests <i>(through his holding of the entire issued shares of and in Brilliant Trade Developments Limited)</i>	8.00%
Mr. Park Seung Rae	32,500,000	corporate interests <i>(through his holding of the entire issued shares of and in Prime Media Consultants Limited)</i>	8.00%
Mr. Kim Kwong Hoe	15,931,373	corporate interests <i>(through his holding of the entire issued shares of and in People Talent Assets Limited)</i>	3.92%
Mr. Ra Chang Ju	14,338,235	corporate interests <i>(through his holding of the entire issued shares of and in Digit Success Investments Limited)</i>	3.53%

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

None of the Directors and chief executive, 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 31 July 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 2002, according to the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the following persons directly or indirectly interested in 10% or more of the voting power at general meetings of the Company:

Name	Number of shares	Percentage of interests
Choice Media Investments Limited ("Choice Media")	148,121,186	36.46%
Mr. Chan Ka Wo (<i>Note 1</i>)	148,121,186	36.46%
i.Concept Inc. ("i.Concept") (<i>Note 2</i>)	41,740,196	10.27%
Pan Eagle Limited (<i>Note 2</i>)	41,740,196	10.27%
Pine Technology (BVI) Limited (<i>Note 2</i>)	41,740,196	10.27%
PINE Technology Holdings Limited ("PINE Technology")	41,740,196	10.27%

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the voting power at general meetings of the Company.

Notes:

1. These shares are registered in the name of Choice Media. Mr. Chan Ka Wo legally and beneficially owns the entire issued share capital of Choice Media. Under the SDI Ordinance, Mr. Chan Ka Wo is deemed to be interested in all the share registered in the name of Choice Media.
2. The entire issued share capital of i.Concept is legally and beneficially owned by Pan Eagle Limited and the entire issued share capital of Pan Eagle Limited is legally and beneficially owned by Pine Technology (BVI) Limited. The entire issued share capital of Pine Technology (BVI) Limited is, in turn, legally and beneficially owned by PINE Technology. Under the SDI Ordinance, each of Pan Eagle Limited, Pine Technology (BVI) Limited and PINE Technology is deemed to be interested in all the shares registered in the name of i.Concept.

COMPETING INTERESTS

As at 31 July 2002, none of the Directors or the substantial shareholders or the management shareholders of the Company or their respective associates as defined in the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") had an interest in a business that competed with or might compete with the business of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of all shareholders of the Company passed on 16 July 2002, the Company adopted a Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix V to the Company's prospectus dated 25 July 2002. As at 31 July 2002, no option had been granted or agreed to be granted by the Company under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Up to 31 July 2002, there had been no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

SPONSOR'S INTEREST

On 31 July 2002, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of the Sponsor, was interested in 20,000,000 shares of the Company. Save as the disclosed herein, none of the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had 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 as at 31 July 2002.

Pursuant to the agreement dated 25 July 2002, entered into between the Company and the Sponsor, the Sponsor will receive usual sponsorship fees for acting as the Company's retained sponsor for the remainder of the financial year of the Company ending 31 December 2002 and the two years ending on 31 December 2004.

BOARD PRACTICES AND PROCEDURES

The Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Group has established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with the requirements as set out in Rule 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the Committee are to review the Group's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The Committee is also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The committee of the Group comprises Mr. Lee Kin Keung and Mr. Navin Kumar Aggarwal both of whom are independent non-executive Directors, and Mr. Lee Kin Keung is the chairman of the Committee.

The Committee has already reviewed the Group's unaudited condensed financial statements for the six months ended 30 June 2002.

On behalf of the Board
QUASAR Communication Technology Holdings Limited
RA Chang Ju
Chairman

Hong Kong, 13 August 2002