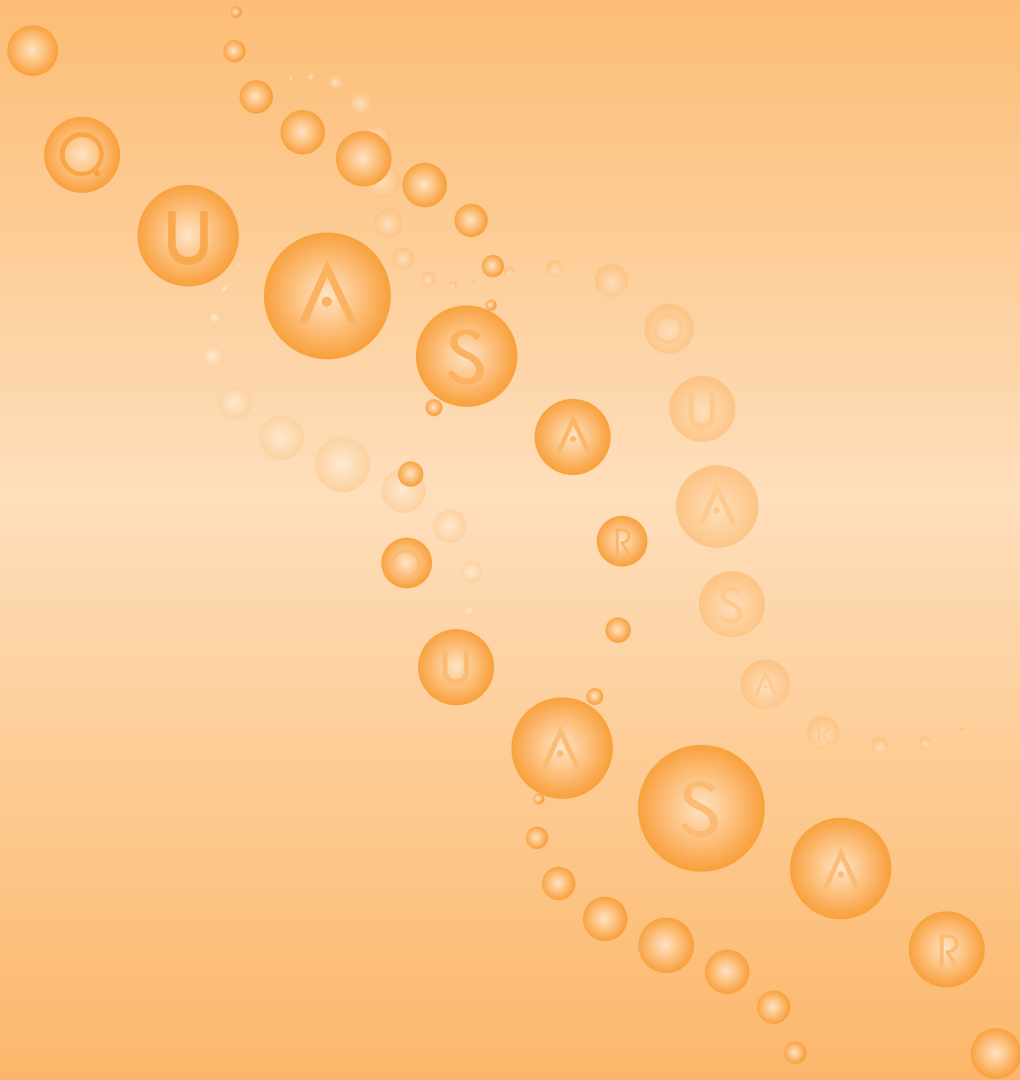




QUASAR Communication Technology Holdings Limited



**2002**

The 3rd Quarterly Report

## 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.

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*This document, for which the directors of QUASAR Communication Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to QUASAR Communication Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2002**

<b>Three Months Ended 30 September</b>	<b>2002</b>	2001
• Group Turnover	<b>313,298,000</b>	69,563,000
• Group Profit/(Loss)	<b>5,981,000</b>	(333,000)
• Earnings/(Loss) Per Share	<b>1.57 cents</b>	(0.10) cents
<b>Nine Months Ended 30 September</b>	<b>2002</b>	2001
• Group Turnover	<b>968,272,000</b>	196,446,000
• Group Profit/(Loss)	<b>16,791,000</b>	(587,000)
• Earnings/(Loss) Per Share	<b>4.88 cents</b>	(0.18) cents

**HIGHLIGHTS**

- Remarkable performance in revenue and profit for the nine months ended 30 September 2002 in comparison to 2001.
- Cellular phone working sample for CDMA2000 1x will be finished and mass production shall be commenced after client’s approval.
- Establishment of sales office in Singapore is in progress and expected to generate revenue in next quarter.
- The Group is closed to the completion of its investment in the PRC joint venture which principally engaged in the design, manufacture and sales of CDMA repeaters.

**THIRD QUARTERLY RESULTS**

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”) for the nine months (the “Nine-Month Period”) and the three months (the “Quarterly Period”) ended 30 September 2002. The third quarterly report for the nine months ended 30 September 2002 has been reviewed by the Company’s audit committee.

### **Nine-Month Period**

The unaudited consolidated profit of the Group for the Nine-Month Period was approximately HK\$16,791,000, as compared to the unaudited consolidated loss of the Group of approximately HK\$587,000 for the corresponding nine-month period in 2001. Unaudited consolidated turnover of the Group for the Nine-Month Period was approximately HK\$968 million, representing an increase of about 392.89% over the unaudited consolidated turnover of the Group of approximately HK\$196 million for the corresponding nine-month period in 2001.

The unaudited net profit margin of the Group was approximately 1.73% for the Nine-Month Period which was higher than the unaudited net loss margin of the Group of approximately 0.30% for the corresponding nine-month period in 2001. The unaudited basic earnings per share was about HK4.88 cents for the Nine-Month Period (2001: HK loss per share HK(0.18 cents)).

### **Quarterly Period**

The unaudited consolidated profit of the Group for the Quarterly Period was approximately HK\$5,981,000, as compared to the unaudited consolidated loss of the Group of approximately HK\$333,000 for the corresponding quarterly period in 2001. Unaudited consolidated turnover of the Group for the Quarterly Period was approximately HK\$313 million, representing an increase of approximately 350.37% over the unaudited consolidated turnover of the Group of HK\$70 million for the corresponding quarterly period in 2001.

**UNAUDITED CONSOLIDATED INCOME STATEMENT**

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

	Notes	Nine months ended		Three months ended	
		30 September	30 September	30 September	30 September
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<b>968,272</b>	196,446	<b>313,298</b>	69,563
Contract costs		<b>(942,405)</b>	(193,540)	<b>(303,324)</b>	(67,573)
		<b>25,867</b>	2,906	<b>9,974</b>	1,990
Other revenues	2	<b>161</b>	2	<b>102</b>	1
Other operating expenses		<b>(8,077)</b>	(3,495)	<b>(3,555)</b>	(2,324)
Operating profit/(loss)		<b>17,951</b>	(587)	<b>6,521</b>	(333)
Taxation	3	<b>(1,160)</b>	–	<b>(540)</b>	–
Profit/(loss) for the period		<b>16,791</b>	(587)	<b>5,981</b>	(333)
Earnings/(loss) per share					
– Basic (HK cents)	4	<b>4.88</b>	(0.18)	<b>1.57</b>	(0.10)

**NOTES:**

**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 Enterprises 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.

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice 2.127 “Accounting for group reconstructions”. The consolidated accounts of the Group for the Nine-Month Period, including the comparative figures, are prepared as if the company had been the holding company of the Group from the beginning of the earliest period presents.

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

## 2. Revenues and turnover

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

	Nine months ended 30 September		Three months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Revenue from cost plus contracts	957,229	194,691	308,687	67,808
Consultancy income	11,043	1,755	4,611	1,755
	<u>968,272</u>	<u>196,446</u>	<u>313,298</u>	<u>69,563</u>
Other revenues				
Interest income	61	2	56	–
Others	100	–	46	1
	<u>161</u>	<u>2</u>	<u>102</u>	<u>1</u>
Total revenues	<u>968,433</u>	<u>196,448</u>	<u>313,400</u>	<u>69,564</u>

## 3. Taxation

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the nine months ended 30 September 2002. No provision for Hong Kong profits tax had been provided for the nine months ended 30 September 2001 as the Group had no assessable profit.

No provision for overseas profits tax has been made as the subsidiary had no assessable profit for the nine months ended 30 September 2001 and 2002.

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

	Nine months ended 30 September		Three months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The charge comprises:				
– Hong Kong Profits Tax	<u>1,160</u>	<u>–</u>	<u>540</u>	<u>–</u>

**4. Earnings/(loss) per share**

The calculation of basic earnings per share for the Nine-Month Period and the Quarterly Period are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$16,791,000 and HK\$5,981,000, and the weighted average number of 343,750,346 shares and 380,639,614 shares respectively. The corresponding nine-month period and quarterly period in 2001 are based on the unaudited consolidated loss attributable to shareholders of approximately HK\$587,000 and HK\$333,000 respectively, and the weighted average number of 325,000,000 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.

**5. Reserves**

	Nine months ended 30 September				2001	
	Share premium HK\$'000	Merger reserves HK\$'000	Exchange reserves HK\$'000	Accumulated loss/retained profits HK\$'000	Total HK\$'000	HK\$'000
Beginning of the period	77	11,079	(56)	(7,152)	3,948	(9,061)
Reserves arising on issue of shares of Synerex Inc.	-	-	-	-	-	11,079
Shares issued at premium	52,001	-	-	-	52,001	-
Capitalization issue	(3,248)	-	-	-	(3,248)	-
Shares issue expenses	(7,179)	-	-	-	(7,179)	-
Exchange difference on translation of overseas operations	-	-	98	-	98	(8)
Profit/(loss) for the period	-	-	-	16,791	16,791	(587)
End of the period	<u>41,651</u>	<u>11,079</u>	<u>42</u>	<u>9,639</u>	<u>62,411</u>	<u>1,423</u>

**INTERIM DIVIDENDS**

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

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

## BUSINESS REVIEW AND OUTLOOK

During the Nine-Month Period, QUASAR achieved an impressive profit growth of approximately 29.4 times. The remarkable performance not only moves QUASAR a step further to deliver our target, but also disseminates the key and proven message of the Group's success in its service niche in the provision of cellular phone solutions to local cellular phone manufacturers and further extended to local distributors in the People's Republic of China (the "PRC"). Revenue of the Group reached HK\$968 million, representing an increase of 3.9 times in comparison to same period in 2001. The Group continues to maintain a healthy liquidity position with a current ratio of 1.4 times with no bank or other interest-bearing borrowings.

With a strong team of research and development engineers and after-sales technical support professionals, QUASAR continues to deliver high valued cellular phone solutions to our clients. This was awarded with recurring cellular phone contracts and new customers during the last quarterly period, which translated into growth in both revenue and consultancy income. Viewing the promising and rewarding CDMA market, the Group increased its pace in the development, sales and marketing of CDMA2000 1x technology. A working sample is expected to be ready shortly and mass production will be commenced after receiving approval from clients. Inevitably, these positive moves bring along with increased overheads in relation to both the R&D, sales and technical support centres, however, already generated a more favourable returns from these spending.

Taking the advantage of Singapore as the center of the Asia Pacific region with solid business environment and well-established logistic infrastructure, the Group is in its schedule to establish the sales office, targeting Thailand, Vietnam and India as our first tapping markets. The Group expects to generate revenue starting from the 4th quarter.

The cellular phone market continues to be in an upward trend and localization of cellular phones soars to a 20% market share up to the end of the 3rd quarter. The Group is also encouraged by the steady increment in the number of subscribers in the GSM market, together with a sharp growth for CDMA especially in the third quarter, whereby we can enjoy our strategic benefits by providing a solid GSM solutions and a boosting CDMA ones at present and in future.

The announcement of RMB10 billion contracts with multinational telecommunication conglomerates by China Unicom further builds a clear milestone to the expedition of the CDMA development in the PRC, whereby QUASAR shall significantly benefit from its interest in a PRC joint venture, engaging in the CDMA repeater business, which is much closed to the conclusion of investment.

Embarking on the advanced technology and management's in-depth understanding of the telecommunication market, QUASAR is in a competitive position to embrace every market opportunity, to strengthen clients' portfolio, to strive to achieve our results and to endeavor becoming a major solution provider for mobile telecommunication appliances by creating innovative ideas.



**INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARE CAPITAL**

As at 30 September 2002, the interests of the Directors in the share capital of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

<b>Name</b>	<b>Number of shares</b>	<b>Nature of interests</b>	<b>Percentage of interests</b>
Mr Jo Won Seob	32,500,000	corporate interest <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 interest <i>(through his holding of the entire issued shares of and in Prime Media Consultants Limited)</i>	8.00%
Mr Kim Kwang Hoe	15,931,373	corporate interest <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 interest <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 executives, 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 30 September 2002.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, according to the register required to be kept under Section 16(1) of the 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 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 30 September 2002, none of the Directors, 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 any interest in business that competed or might compete with 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 30 September 2002, no option had been granted or agreed to be granted by the Company under the Share Option Scheme.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Up to 30 September 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 INTERESTS**

As at 30 September 2002, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), was interested in 20,000,000 shares of the Company. Save as disclosed herein, none of 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.

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 Company established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with the requirements as set out in Rules 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-yearly and quarterly reports and to provide advice and comments thereon to the Board. The Committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The Committee has two members comprising the two independent non-executive Directors, Mr Lee Kin Keung and Mr Navin Kumar Aggarwal.

The Committee has already reviewed the Group's unaudited quarterly report for the nine months ended 30 September 2002.

By order of the Board  
**QUASAR Communication Technology Holdings Limited**  
**Ra Chang Ju**  
*Chairman*

Hong Kong, 12 November 2002