



QUASAR Communication Technology Holdings Limited

Annual Report 2002

A stylized map of Southeast Asia is centered on the page, rendered in a bright yellow color. The map is set against a background of large, overlapping, angular shapes in shades of orange and white, creating a dynamic, abstract composition. A thin white line with a small blue dot at its end points from the top right towards the map. Another thin orange line with a small red dot at its end points from the bottom right towards the map. The text "GSM" and "CDMA" is positioned to the right of the map, with thin lines connecting them to the map's area.

GSM
CDMA

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.

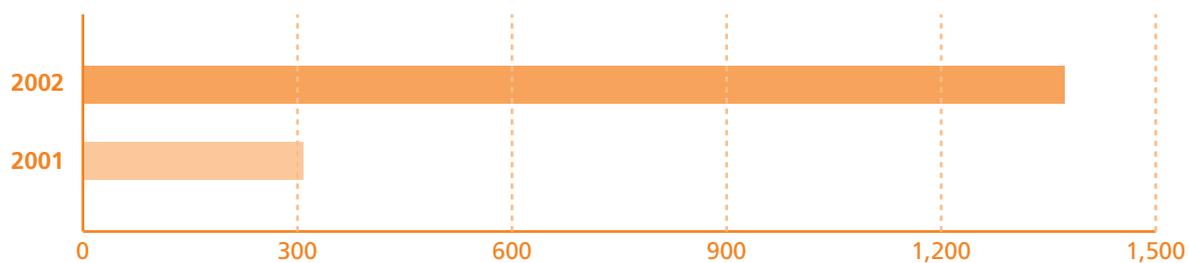
The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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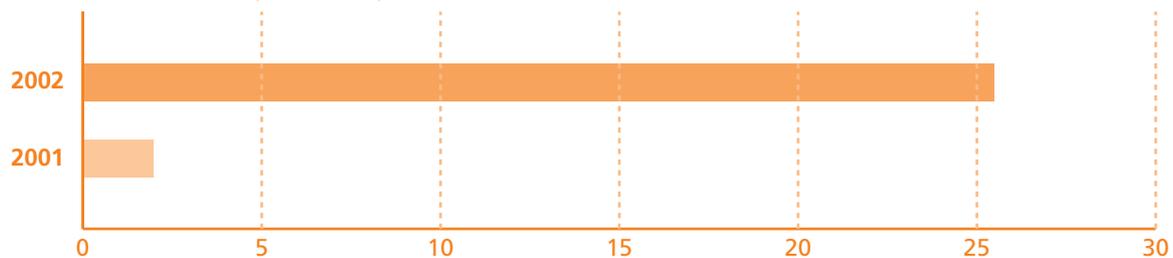
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Financial Highlights

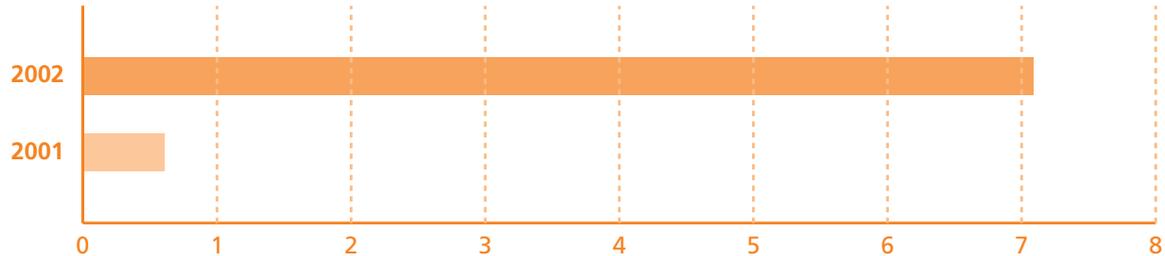
Turnover (HK\$'million)



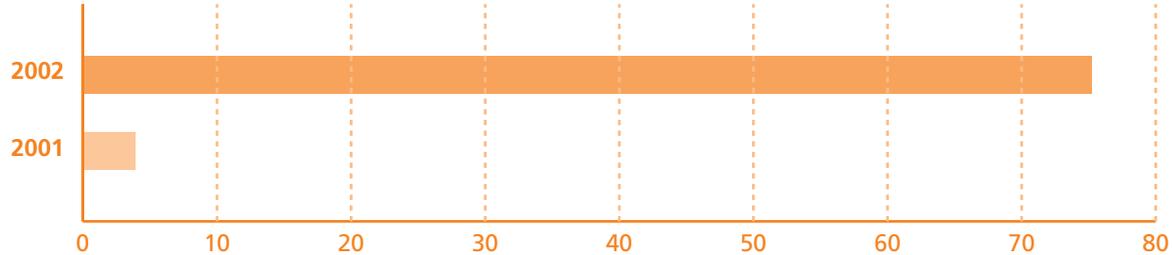
Profit after tax (HK\$'million)



Earnings per share (HK cents)



Net Asset (HK\$'million)



Corporate Information

EXECUTIVE DIRECTORS

RA Chang Ju *Chairman & CEO*
JO Won Seob
PARK Seung Rae
KIM Kwang Hoe
ONG Se Mon

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Kin Keung
Navin Kumar AGGARWAL

COMPLIANCE OFFICER

RA Chang Ju

COMPANY SECRETARY

CHU Kin Men, *AHKSA*

AUTHORIZED REPRESENTATIVE

RA Chang Ju
CHU Kin Men, *AHKSA*

QUALIFIED ACCOUNTANT

CHU Kin Men, *AHKSA*

AUDIT COMMITTEE

LEE Kin Keung
Navin Kumar AGGARWAL

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1018, 10th Floor
China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
Dao Heng Bank
HSBC HK
Korea Exchange Bank
Standard Chartered Bank

PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
36C Bermuda House, 3rd Floor
P.O. Box 513 GT, Dr. Roy's Drive
George Town, Grand Cayman
Cayman Islands, British West Indies

HONG KONG BRANCH SHARE REGISTER AND TRANSFER OFFICE

Abacus Share Registrars Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

SPONSOR

Shenyin Wanguo Capital (H.K.) Limited

LEGAL ADVISER AS TO HONG KONG LAW

Fairbairn Catley Low & Kong

STOCK QUOTE

8171

WEBSITE OF THE COMPANY

www.quasarcomm.com

2002 was an eventful year for the Company. QUASAR Communication Technology Holdings Limited ("QUASAR"), strengthened its market presence through resource integration, product research and development, and sales network establishment. After listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, QUASAR has further increased the penetration of its products into the target markets, which also has greatly enhanced its corporate image.

FINANCIAL REVIEW

We are pleased to report that the Group was able to attain a satisfactory growth meeting the targets set out in the prospectus. Sales rose by 345.8% from HK\$308 million to HK\$1,373 million. Net profit increased 1,182.9% from HK\$1,986,000 to HK\$25,479,000. Basic earnings per share increased 1,062.3% to HK7.09 cents. At the end of 2002, the Group registered a strong balance sheet with a net cash position of HK\$38.9 million with no interest bearing liability.

BUSINESS REVIEW

Last year, QUASAR took advantage of the thriving environment for GSM and CDMA network systems in China. Total market demand rose from 80 million sets in 2001 to 100 million sets in 2002, representing 25% growth. China Unicom drove the market and secured 7 million subscribers. At the meantime, local manufacturers increased their market share from 12% in 2001 to 22% in 2002. With a strong team of research and development engineers and after-sales technical support professionals, QUASAR was well positioned in the high-value cellular phone solution market in China.

In 2002, QUASAR increased the pace of developing, and sales and marketing of CDMA2000 1x technology in China, which enables faster voice and data transmission. The success and popularity of the technology will eventually translate into growth in both revenue and consultancy income in the near future. As a result of such strategic business decision, QUASAR postponed the commercialization of PDA phone, a market we foresee will have a mature product market demand after 2003.

While QUASAR is focused on product development, we have secured steady profit through delivering to customers matured GSM solutions, ranged from mono-colour to colour dual-folder cellular phones. We are confident that our business model is robust and dynamic and will continue to bring to our shareholders a better return as the CDMA market continues to grow in a fast pace.

The joint-venture investment in Hangzhou Young-Bird Telecom Communication Co., Ltd., one of the leading CDMA network equipment providers in China has not only generated more business opportunities and new streams of income through the design, development, manufacture, sales and marketing of CDMA repeaters, but it, at the same time, also enhanced QUASAR's presence in the local market and greatly improved its brand image.

Chairman's Statement

In November 2002, a representative office was established in Singapore, which paved the way for QUASAR to seek more business opportunities in neighboring Asia Pacific markets, such as Thailand, Indonesia and Malaysia.

The Company is also committed in providing the best customer services. We have a team of dedicated people for the research and development of cellular phone software. In addition, we are establishing the Shenzhen representative office which is expected to focus on providing timely and professional after-sales technical support to our customers.

BUSINESS PROSPECT

QUASAR has built infrastructure and developed technological expertise in mobile appliances in China. Based on our knowledge and experience, we have been successful in providing cellular phone solutions to customers through both technology development and product manufacturing.

We will continue to focus on providing a complete solutions in the coming years and actively look into the opportunities for co-operating with new business partners in Korea for developing mobile phones accessories, such as components and batteries, at the same time, we are expanding our customers base from major local manufacturers to distributors with extensive and established sales network.

We believe that the prosperity of the future in the fast moving technologies depends on the nurturing of ideas and the capabilities of bringing them to market ahead of the competition. In the second half of 2003, we will focus study on 3G technologies to sharpen QUASAR's competitive edge.

Even though we experienced a strong growth in 2002, it was by no means an easy task to achieve. In addition, our robust model allows the Company the flexibility to grow within the changing business environment. However none of this would have been possible without the right personnel. I would like to thank the management and staff who made this a successful year through their hard work, creativity and continuing dedication.

RA Chang Ju

Chairman

Hong Kong, 24 March 2003

LIQUIDITY, FINANCIAL RESOURCES AND CHARGE OF GROUP ASSETS

The Group had no charges on the Group's assets for the two financial years in 2001 and 2002. The Group continued to arrange the letter of credit on a back-to-back basis for the sales and hardware procurement. As at 31 December 2002, the total amount of banking facilities available to the Group amounted to around HK\$104.6 million (2001: HK\$Nil).

CAPITAL STRUCTURE

The shares of the Company were listed on GEM in July 2002 through the issue of ordinary shares to public by way of placing of 81,251,500 new shares at HK\$0.65 each for a total gross cash proceeds by the Company of approximately HK\$52.8 million.

The Group adopted a conservative approach in its treasury policies whereby surplus cash was placed in banks as deposits for the generation of extra working capital for operation and capital investment and did not engage in any foreign currency speculative activities. The management performed periodic forecasts to meet the financial needs and requirement of the business plan as set out in the prospectus or identified by the Directors during the normal course of business. As at 31 December 2002, total cash on hand amounted approximately HK\$38.9 million (2001: approximately HK\$2.4 million) which are mainly generated from normal business operation and the initial public offerings in mid 2002.

EMPLOYEES

As at 31 December 2002, the Group had 27 full-time employees (2001: 13) located in Hong Kong and Korea and the total staff costs incurred, including directors' emoluments amounted approximately HK\$9.4 million (2001: approximately HK\$2.6 million). The remuneration of the employees was determined based on their performance, experience, qualification and the prevailing market condition. The Group also provided benefits to employees including share option scheme, contributions to mandatory provident/pension scheme, medical insurance and accident insurance.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the year ended 31 December 2002, the Group has invested in a joint venture ("JV") named Hangzhou Young-Bird Communication Telecom Co., Ltd., at 8%, with a PRC and a Korean Company being the other joint venture parties. The JV is principally engaged in the design, develop, manufacture, sale and maintenance of CDMA repeaters. The total investment of the JV is HK\$7.8 million. Other than disclosed above, the Group did not have any significant investments or material acquisitions during the financial year.

Management Discussion and Analysis

GEARING RATIO

As at the two years ended 31 December 2001 and 2002, the Group did not have any interest bearing bank and other borrowings.

EXPOSURE TO EXCHANGE RISK

The receipt and expenditure, and the monetary assets of the Group were mostly denominated in either US dollars or Hong Kong dollars. The Directors considered the Group has minimum exchange risk exposure in view of the stability between the two currencies and therefore was not necessary to implement any hedging policy.

CONTINGENT LIABILITIES AND COMMITMENT

There were guarantees given to banks by the Company in respect of banking facilities extended to certain wholly owned subsidiaries. As at 31 December 2002, the Company had commitment under operating lease amounting to approximately HK\$1,329,000 (2001: HK\$440,000).

Comparison of Business Objectives and Actual Business Progress

Business objectives as stated in the Prospectus for the period ended 31 December 2002

Actual business progress/change in business objective for the period up to 31 December 2002

Cellular phone solutions development

CDMA2000 1x cellular phones

- prototype formulation and commercial launch of 1st generation
- technical viability assessment and specification definition for 2nd generation

The solution for CDMA2000 1x cellular phones was completed and the Group was under negotiation with customers for the commercial launch

The specification definition was completed and the technical viability assessment was rescheduled in 1st half of 2003

PDA phones

- commercial launch of 1st generation
- technical viability assessment and specification definition for 2nd generation

The solution for PDA phones was completed but the commercial launch was postponed due to immature market environment

The development was postponed due to immature market environment

Other solutions development

- investment in a joint venture regarding CDMA2000 1x repeaters

The investment in the joint venture engaging in the design, development, manufacture, sales and maintenance of CDMA2000 1x repeaters was completed

Sales and marketing capability

- setting up sales office in Singapore

A Singapore representation office was set up in November 2002

Technical support capability

- provision of technical support services by the representative office in Shenzhen
- provision of technical support services by the representative office in Shanghai

The set up of the representative office in Shenzhen was in its final stage of approval and is expected to be in operation in 1st half of 2003

The set up of the Shanghai office was postponed pending the set up of the representative office in Shenzhen and the re-arrangement with the Shenzhen Support House.

Others

- office expansion
- deposit of cost of components of cellular phone

The office expansion both in Hong Kong and Korea were completed in August 2002 and November 2002 respectively

The Group has deposited for securing the delivery of cellular phone components

Comparison of Business Objectives and Actual Business Progress

USE OF PROCEEDS

	Total amount to be used as stated in implementation plan up to 31 December 2002 HK\$'000	Actual amount utilized up to 31 December 2002 HK\$'000
For the development of cellular phone solutions of CDMA2000 1x cellular phones and PDA phones	4,961	2,885
For the investment in a joint venture regarding CDMA2000 1x repeaters	7,800	6,500
For the setting up of sales office in Singapore	780	460
For the provision of technical support services by the representative offices in Shenzhen and Shanghai	1,716	105
For the installation of management information system	–	139
For office expansion	440	422
General working capital	6,900	6,900
	<u>22,597</u>	<u>17,411</u>

EXECUTIVE DIRECTORS

RA Chang Ju, aged 38, is the chairman and chief executive officer of the Group. He is responsible for the overall strategic planning and organization of the Company. Mr Ra holds a bachelor degree in economics from Korea University in South Korea. Before joining the Group in June 2001, he held senior management position in international firm and has accumulated experience in the computer and consumer electronic appliance field.

JO Won Seob, aged 35, is the chief operation officer and co-founder of the Group. He is responsible for the overall strategic planning and organization of the Company. Mr Jo holds a bachelor degree in electric and electronics from Chuo University in Japan. Prior to founding the Group in 1998, he gained more than 7 years of experience in telecommunication.

PARK Seung Rae, aged 40, is the chief marketing officer and co-founder of the Group. He is responsible for the overall strategic planning and formulation sales and marketing strategy of the Group. Mr Park holds a bachelor degree in Chinese literature from Seoul National University in South Korea. He has more than 15 years of experience in communication product field. Prior to founding the Group, he held senior management position in international company with business location in China.

KIM Kwang Hoe, aged 46, is the chief technical officer and co-founder of the Group. He holds a bachelor degree in mechanical engineering from Ajou University in South Korea. Mr Kim held senior management position in international company and has accumulated knowledge, experience and technical know-how in data transmission.

ONG Se Mon alias WANG Shih Wen, aged 39, holds a bachelor degree in statistics and computer science from the University of New South Wales, Australia. He has over twelve years of experience in the computer industry and held senior management position in an actuary and consulting firm. He was appointed as an executive director of the Company on 10 April 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Kin Keung, aged 42, holds a Bachelor of Commerce degree and a Master of Commence degree from University of New South Wales and also holds a Master of Applied Finance degree from Macquarie University in Australia. Mr Lee has over 14 years of experience in finance, management, auditing and accounting. He is both a member of the Hong Kong Society of Accountants and CPA Australia. He was appointed as an independent non-executive director of the Company on 27 April 2002.

Navin Kumar AGGARWAL, aged 38, is a solicitor practicing in Hong Kong. He holds a bachelor degree in law from the University of Hull in England. Mr Aggarwal has over ten years of experience in providing advice on mergers and acquisitions and initial public offerings. He was appointed as an independent non-executive director of the Company on 27 April 2002.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

CHU Kin Men, aged 29, is the Company Secretary and Qualified Accountant of the Company. He holds a bachelor degree in Accountancy from City University of Hong Kong. Mr Chu is a member of the Hong Kong Society of Accountants. Prior to joining the Group, he was an auditor with one of the international accounting firms.

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2002.

Group reorganisation and basis of preparation of the accounts

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 April 2002 under the Companies Law of the Cayman Islands. Pursuant to a corporate reorganisation (the "Reorganisation"), as described in Appendix V of the prospectus of the Company dated 25 July 2002 (the "Prospectus"), to rationalise the group structure in preparation for a listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries listed in note 15 to the accounts (collectively known as the "Group") on 16 July 2002.

The Reorganisation has been reflected in these accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the accounts.

Over 90% of the Group's turnover and contribution to operating profit is attributable to the provision of customised solutions for cellular phones to the market in the People's Republic of China (the "PRC").

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 21.

The directors proposed the payment of a final dividend of HK\$0.01 per ordinary share, totalling HK\$4,063,000.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 20 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

Distributable reserves

Distributable reserves of the Company as at 31 December 2002 amounted to HK\$60,583,000. Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of the Cayman Islands.

Financial summary

The summary of the results and of the assets and liabilities of the Group for the last three financial years, prepared under the basis set out in note 1 to the accounts, is set out on page 49.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Share options

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 Prospectus. As at 31 December 2002, no option had been granted or agreed to be granted by the Company under the Share Option Scheme.

Report of the Directors

Directors

The directors during the year were:

Executive directors:

Mr RA Chang Ju	(appointed on 10 April 2002)
Mr JO Won Seob	(appointed on 10 April 2002)
Mr KIM Kwang Hoe	(appointed on 10 April 2002)
Mr PARK Seung Rae	(appointed on 10 April 2002)
Mr ONG Se Mon, alias WANG Shih Wen	(appointed on 10 April 2002)
Mr CHAN Ka Wo	(appointed on 10 April 2002 and resigned on 1 July 2002)

Independent non-executive directors:

Mr LEE Kin Keung	(appointed on 27 April 2002)
Mr Navin Kumar AGGARWAL	(appointed on 27 April 2002)

Mr JO Won Seob and Mr ONG Se Mon will retire by rotation at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 11.

Directors' service contracts

Each of the executive directors has entered into a service contract with the Company for a term of three years from 31 July 2002, which may be terminated by either party thereto giving to the other not less than six calendar months prior notice in writing, or otherwise in accordance with its terms.

Save as disclosed herein, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Except for the transactions disclosed in noted 25 to the accounts, there is no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executives' interests in equity or debt securities

As at 31 December 2002, the interests of the directors and chief executives in the shares and warrants of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

ordinary shares of HK\$0.01 in the Company

Name of Director	Type of interest	Number of shares	Percentage of issued share capital
Mr RA Chang Ju	Corporate interests	14,338,235	3.53%
Mr JO Won Seob	Corporate interests	32,500,000	8.00%
Mr KIM Kwang Hoe	Corporate interests	15,931,373	3.92%
Mr PARK Seung Rae	Corporate interests	32,500,000	8.00%
Mr ONG Se Mon	Corporate and other interests	(Note 1)	(Note 1)

Note:

- These shares are registered in the name of i.Concept Inc. ("i.Concept") and i.Concept is an indirect wholly owned subsidiary of PINE Technology Holdings Limited ("PINE Technology") and Mr ONG Se Mon is beneficially interested in 90,804,000 shares of PINE Technology which represents approximately 13.3% of the issued share capital of PINE Technology.

At no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, the Company or any other body corporate.

Report of the Directors

Substantial shareholders

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name of shareholder	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 (<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	41,740,156	10.27%

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 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

None of the directors, initial management shareholders or their respective associates of the Company has an interest in a business which competes or may compete with the business of the Group.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Purchases

– the largest supplier	96%
– five largest suppliers combined	100%

Sales

– the largest customer	56%
– five largest customers combined	98%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Disclosure of trading balance arising from sales transactions conducted by the Group in its ordinary course of business

The following disclosure is made in pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules.

As at 31 December 2002, four customers of the Group, who are independent parties not connected to any of the Directors, the chief executives of the Company and its subsidiaries, the substantial shareholders (within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules), had trading balances with the Group of approximately HK\$34,970,000, HK\$33,341,000, HK\$33,150,000 and HK\$31,133,000 representing approximately 47%, 44%, 44% and 41% respectively of the audited consolidated net tangible assets of the Group of approximately HK\$75,187,000 as at 31 December 2002.

The above-mentioned customers are major cellular phone companies in the PRC to whom the Group provides cellular phone solutions. Such trading balances were resulted from sales to such customers by the Group in its ordinary course of business and on normal commercial terms. The Group's customers are normally granted credit period of 1 month to 2 months. For the year ended 31 December 2002, the Group required its customers to settle the trade receivables by irrevocable letter of credit, i.e. they were required to issue irrevocable letter of credit of either 30 days or 60 days in favour of the Group before procurement of delivery of cellular phone solutions by the Group. None of the above balances are overdue and the amounts have substantially been settled. No collateral was required to be made by such customers and no interest was charged on the trading balances.

Report of the Directors

Audit committee

The Company established an audit committee on 16 July 2002. The audit committee has two members comprising Messrs. LEE Kin Keung and Navin Kumar AGGARWAL. Mr LEE Kin Keung has been appointed chairman of the audit committee. The terms of reference of the audit committee have been established with regard to Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the Board, and (iii) to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has met once since its establishment with the management to discuss and review the Group's various issues with a view to further improve the Group's corporate governance.

Board practices and procedures

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

Sponsor's interest

As at 31 December 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 above, neither the Sponsor nor any of its directors or 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 sponsorship agreement dated 25 July 2002 entered into between the Company and the Sponsor, the Sponsor will receive sponsorship fees for acting as the Company's retained sponsor until 31 December 2004.

Retirement scheme

Details of the retirement scheme are set out in note 9 to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

RA Chang Ju

Chairman

Hong Kong, 24 March 2003

Auditors' Report to the Shareholders



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF QUASAR COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 21 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 March 2003

Consolidated Profit and Loss Account

For the Year Ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	3	1,372,729	308,270
Contract costs		(1,329,527)	(299,265)
		43,202	9,005
Other revenues	3	193	11
Research and development costs		(2,656)	(1,085)
Depreciation of fixed assets		(262)	(44)
Other operating expenses		(13,398)	(5,901)
Operating profit before taxation	4	27,079	1,986
Taxation	5	(1,600)	–
Profit attributable to shareholders	6 & 20	25,479	1,986
Dividends	7	4,063	–
Basic earnings per share	8	7.09 cents	0.61 cent

Consolidated Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Fixed assets	12	817	529
Investment securities	13	9,142	–
Intangible assets	14	16	–
		<u>9,975</u>	<u>529</u>
Current assets			
Inventories	16	14,191	22,269
Trade receivables	17	147,813	40,317
Deposits, prepayments and other receivables		11,717	195
Due from a shareholder		–	25
Cash and bank balances		38,911	2,355
		<u>212,632</u>	<u>65,161</u>
Current liabilities			
Due to			
Shareholders		–	1,308
A related company		–	3,844
Trade payables	18	139,496	56,459
Other payables and accruals		6,308	138
Taxation payable		1,600	–
		<u>147,404</u>	<u>61,749</u>
Net current asset		<u>65,228</u>	<u>3,412</u>
Total assets less current liabilities		<u>75,203</u>	<u>3,941</u>
Financed by:			
Share capital	19	4,063	70
Reserves	20(a)	67,077	3,871
Proposed final dividend	20(a)	4,063	–
Shareholders' funds		<u>75,203</u>	<u>3,941</u>
On behalf of the Board			
RA Chang Ju		JO Won Seob	
Director		Director	

Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000
Non-current assets		
Intangible assets	14	16
Investments in subsidiaries	15	63,610
		<u>63,626</u>
Current assets		
Prepayments		1,113
Bank balance		7
		<u>1,120</u>
Current liabilities		
Accruals		100
		<u>1,020</u>
Net current liabilities		
		<u>1,020</u>
Total assets less current liabilities		<u>64,646</u>
Financed by:		
Share capital	19	4,063
Reserves	20(b)	56,520
Proposed final dividend	20(b)	4,063
		<u>64,646</u>
Shareholders' funds		<u>64,646</u>

On behalf of the Board

RA Chang Ju

Director

JO Won Seob

Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity as at 1 January		3,941	(9,076)
Net gains not recognised in the profit and loss account			
Exchange differences arising on translation of the financial statements of foreign subsidiary	20	<u>139</u>	<u>(56)</u>
		4,080	(9,132)
Profit for the year	20	25,479	1,986
Issue of shares	19 & 20	52,823	11,087
Share issue expenses	20	<u>(7,179)</u>	<u>–</u>
Total equity as at 31 December		<u>75,203</u>	<u>3,941</u>

Consolidated Cash Flow Statement

For the Year Ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash inflow/(outflow) from operations	22(a)	<u>380</u>	<u>(8,053)</u>
Investing activities			
Purchase of fixed assets	12	(550)	(573)
Purchase of intangible assets	14	(16)	–
Payments for investments		(7,842)	–
Interest received		109	11
Net cash outflow from investing activities		<u>(8,299)</u>	<u>(562)</u>
Net cash outflow before financing		<u>(7,919)</u>	<u>(8,615)</u>
Financing activities			
Repayment to shareholders		(1,308)	(61)
Issue of ordinary shares		52,823	11,087
Share issue expenses		(7,179)	–
Net cash inflow from financing	22(b)	<u>44,336</u>	<u>11,026</u>
Increase in cash and cash equivalents		36,417	2,411
Cash and cash equivalents at 1 January		2,355	–
Effect of foreign exchange rate changes		139	(56)
Cash and cash equivalents at 31 December		<u>38,911</u>	<u>2,355</u>
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		<u>38,911</u>	<u>2,355</u>

Notes to the Accounts

1. GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) 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.
- (b) 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 ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Ace Solution Technology Limited ("BVI Holdco"), the holding company of the Group prior to the Reorganisation, through a share swap and became the holding company of BVI Holdco and its subsidiaries. Details of the Reorganisation are set out in Appendix V of the prospectus of the Company dated 25 July 2002.
- (c) The Reorganisation is accounted for using merger accounting as permitted by Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions". The consolidated accounts of the Group for the year ended 31 December 2002, including the comparative figures, are prepared as if the Company had been the holding company of the companies comprising the Group from the beginning of the earliest period presented.
- (d) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as the holding company of the Group from the beginning of the earliest period presented. The consolidated accounts include the accounts of the Company and its subsidiaries up to 31 December 2002.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Group accounting *(Continued)*

Consolidation (Continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Translation of foreign currencies

Translation in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet 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.

(c) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Research costs are recognised as an expense in the period in which they are incurred.

Development costs incurred on cost plus contracts are included in contract work in progress. The contract development costs are charged to the profit and loss account by reference to the stage of completion of the projects.

Product development expenditures which does not incur for cost plus contracts is charged to the profit and loss account when incurred.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Intangibles

(i) Trademarks

Expenditure on acquired trademarks is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Trademarks are not revalued as there is no active market for these accounts.

(ii) Impairment of intangibles assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off their cost less accumulated impairment losses over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

Furniture and fixtures	20%
Office and computer equipment	20%
Motor vehicle	25%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the fixed asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Inventories

(i) Goods in transit

Inventories comprise goods in transit and are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(ii) Contract work in progress

Contract work in progress is recorded in the balance sheet at the amount of contract cost incurred plus attributable profits less progress billings.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long services 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits *(Continued)*

(ii) Pension obligations

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Income from cost plus contracts

The Group enters into cellular phone solution contracts with customers whereby a number of elements are bundled together in one contract - i.e. design and development of product, supply of components and parts, provision of engineering support, post delivery support services and related consultancy works. The contract price cannot be allocated to individual elements and the Group invoices its customers at a margin over certain defined costs. The Group refers to these contracts as "cost plus contracts".

Revenues from cost plus contracts are recognised by reference to the stage of completion of the cost plus contracts, including post delivery service support, at the balance sheet date. The stage of completion is measured by reference to costs incurred to date as a percentage to the estimated total costs for the contract.

(ii) Technical consultancy income

Technical consultancy income is recognised when the services are rendered.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition *(Continued)*

(iii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Investments in securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal activity of the Group is the provision of cellular phone solutions services. Revenues recognised during the year are as follows:

	Group	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Turnover		
Revenue from cost plus contracts	1,353,638	303,758
Technical consultancy income	19,091	4,512
	1,372,729	308,270
Other revenues		
Interest income	109	11
Rental income	39	–
Other	45	–
	193	11
Total revenues	1,372,922	308,281

Over 90% of the Group's turnover and contribution to operating profit are attributable to the provision of cellular phone 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 People's Republic of China (the "PRC").

As at 31 December 2002 and 2001, over 90% of the Group's assets are attributable to the business of provision of cellular phone solutions to the PRC market. For the year ended 31 December 2002 and 2001, total capital expenditure incurred for the business amounted to HK\$550,000 and HK\$573,000 respectively.

4. OPERATING PROFIT BEFORE TAXATION

Operating profit before taxation is stated after charging the following:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration	450	100
Cost of inventory sold	1,329,527	299,265
Net exchange losses	117	16
Operating lease rental in respect of land and buildings	962	262
Total research and development costs	18,842	4,656
Less: costs incurred for cost plus projects	(16,186)	(3,571)
	<hr/>	<hr/>
Research and development costs charged to profit and loss accounts	2,656	1,085
Retirement benefits costs	342	50
Staff costs, excluding director emoluments <i>(Note (a) & 11)</i>	5,941	1,197
	<hr/> <hr/>	<hr/> <hr/>

(a) The research and development costs disclosed above included portion of staff costs and directors' emoluments totalling HK\$5,412,000 (2001: HK\$1,329,000).

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the year less taxable losses brought forward. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	1,600	–
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$4,131,000.

7. DIVIDENDS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Final, proposed, of HK\$0.01 (2001: HK\$Nil) per ordinary share	<u>4,063</u>	<u>–</u>

At a meeting held on 24 March 2002, the directors proposed a final dividend of HK\$0.01 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$25,479,000 (2001: HK\$1,986,000) and the weighted average number of 359,281,455 shares (2001: 325,000,000 shares) in issue during the year. In determining the weighted average number of shares on issue, a total of 325,000,000 shares represent the share issued on the incorporation of the Company and the shares issued pursuant to the Reorganisation, including capitalisation issue as referred in note 19 to the accounts, were deemed to have been in issue on 1 January 2002.

For comparison purposes, both the 102,000 shares issued to the then shareholders of the Group upon incorporation of the Company and the 102,000 shares issued as consideration of the acquisition by the Company of the issued capital of BVI Holdco and the capitalisation issue of 324,796,000 were also deemed to have been in issue on 1 January 2001 for the purpose of the calculation of basic earnings per share.

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

9. RETIREMENT BENEFIT COSTS

A mandatory provident fund scheme has been set up for all the eligible employees of the Group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the Group and employees are calculated as a percentage of employee's basic salaries. The assets of the scheme are held separately from those of the Group in an independently administered fund.

9. RETIREMENT BENEFIT COSTS (Continued)

For employees working for a subsidiary incorporated in Republic of Korea ("South Korea"), those who have been with the subsidiary for more than one year are entitled to lump-sum payments based on current rates of pay and length for service when they leave the subsidiary in accordance with the relevant law applied in South Korea. Provision for retirement and severance benefits ("Korean Contribution") is accrued as for the balance sheet date.

The mandatory provident fund scheme cost and Korean Contribution charged to the profit and loss account represents contributions payable by the Group to the schemes.

The total contribution to the above retirement benefit schemes paid and payable by the Group amounted to HK\$342,000 (2001: HK\$50,000) for the year.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	110	–
Other emoluments		
– Basic salaries, allowances and other benefits in kind	3,239	1,401
– Retirement scheme contribution	77	21
	3,316	1,422
	3,426	1,422

Director's fees disclosed above include HK\$110,000 (2001: HK\$Nil) paid to independent non-executive directors.

During the year, each of the five executive directors of the Company received emoluments from the Group of HK\$1,062,000 (2001: HK\$531,000), HK\$740,000 (2001: HK\$327,000), HK\$635,000 (2001: HK\$235,000), HK\$564,000 (2001: HK\$329,000) and HK\$315,000 (2001: HK\$Nil) respectively.

During the year, no director waived and agreed to waive any emoluments.

Notes to the Accounts

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Group	
	2002	2001
Directors	4	4
Non-directors	1	1
	<u>5</u>	<u>5</u>

The emoluments paid to the four directors are reflected in the analysis presented above. The emoluments payable to the remaining individual during the year are as follows:

	Group	
	2002	2001
Basic salaries, housing allowance, other allowance and benefits in kind	310	230
Bonuses	31	–
Pensions	15	9
	<u>356</u>	<u>239</u>

The emoluments fell within the following bands:

	Number of individuals	
	2002	2001
Emolument bands		
HK\$nil – HK\$1,000,000	4	5
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>5</u>	<u>5</u>

- (c) During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement upon joining the Group, or as compensation for loss of office.

Notes to the Accounts

11. STAFF COSTS

	Group	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Wages and salaries	5,540	963
Pension costs	342	50
Others	59	184
	<u>5,941</u>	<u>1,197</u>

12. FIXED ASSETS – GROUP

	Furniture and fixtures	Office and computer equipment	Motor vehicle	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 1 January 2002	104	55	414	573
Additions	459	91	-	550
	<u>563</u>	<u>146</u>	<u>414</u>	<u>1,123</u>
At 31 December 2002	563	146	414	1,123
Accumulated depreciation				
At 1 January 2002	(12)	(6)	(26)	(44)
Charge for the year	(139)	(20)	(103)	(262)
	<u>(151)</u>	<u>(26)</u>	<u>(129)</u>	<u>(306)</u>
At 31 December 2002	(151)	(26)	(129)	(306)
Net book value				
At 31 December 2002	<u>412</u>	<u>120</u>	<u>285</u>	<u>817</u>

13. INVESTMENT SECURITIES

	Group	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Unlisted investment, at cost	<u>9,142</u>	<u>-</u>

Notes to the Accounts

14. INTANGIBLE ASSETS

	Group and Company HK\$'000
Trademarks	
Cost, addition during the year	16
Accumulated amortisation and impairment losses	-
	<hr/>
Net book value at 31 December 2002	16
	<hr/> <hr/>

15. INVESTMENTS IN SUBSIDIARIES

	Company 2002 HK\$'000
Unlisted investment at cost <i>(note (a))</i>	14,882
Due from subsidiaries <i>(note (b))</i>	48,728
	<hr/>
	63,610
	<hr/> <hr/>

15. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) The following is a list of subsidiaries of the Company as at 31 December 2002:

Company	Country/ place of incorporation	Principal activities and place of operation	Particulars of issued and fully paid up share capital	Interest held
<i>Shares held directly:</i>				
Ace Solution Technology Limited	British Virgin Islands	Investment holding in Hong Kong	10,200 ordinary shares of US\$1 each	100%
<i>Shares held indirectly:</i>				
Synerex Inc.	British Virgin Islands	Investment holding in Hong Kong	10,200 ordinary shares of US\$1 each	100%
Zetta Media Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	100 ordinary shares of US\$1 each	100%
Gold Glory Development Limited	British Virgin Islands	Investment holding in Hong Kong	2,000 ordinary shares of US\$1 each	100%
Zetta Global Limited	Hong Kong	Development of software and solutions for mobile appliance in Hong Kong	100 ordinary shares of HK\$1 each	100%
Quasar Communication Technology Korea Ltd (formerly known as Zetta Media Korea Limited)	South Korea	Development of software and solutions for mobile appliance in South Korea	60,000 ordinary shares of KRW5,000 each	100%

Notes to the Accounts

15. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) The following is a list of subsidiaries of the Company as at 31 December 2002: (Continued)

Company	Country/ place of incorporation	Principal activities and place of operation	Particulars of issued and fully paid up share capital	Interest held
Hanbit I&T (HK) Co. Limited	Hong Kong	Sales and marketing of mobile appliance solution in Hong Kong	800,000 ordinary shares of HK\$1 each	100%
Qualified Limited	British Virgin Islands	Investment holding in Hong Kong	100 ordinary shares of US\$1 each	100%
Quasar Communication Technology Limited	Hong Kong	Sales and marketing of mobile appliance solution in Hong Kong	10,000 ordinary shares HK\$1	100%

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

16. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Goods in transit	-	19,281
Contract work in progress (note (a))	14,191	2,988
	14,191	22,269

Notes to the Accounts

16. INVENTORIES (Continued)

(a) Contract work in progress

	Group	
	2002	2001
	HK\$'000	HK\$'000
Product development costs	16,186	3,571
Parts and components and technical support services costs	371,302	298,682
Attributable profits	5,490	4,493
	<hr/>	<hr/>
	392,978	306,746
Less: progress billings to date	(378,787)	(303,758)
	<hr/>	<hr/>
	14,191	2,988
	<hr/> <hr/>	<hr/> <hr/>

17. TRADE RECEIVABLES

Customers are generally granted with credit terms of 30 to 60 days. The ageing analysis of trade receivables are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current	133,984	39,306
31 – 60 days	13,829	1,011
	<hr/>	<hr/>
	147,813	40,317
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

18. TRADE PAYABLES

Details of ageing analysis of the trade payables are as follows:

	Group	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Current	102,839	55,489
31 – 60 days	36,657	970
	<u>139,496</u>	<u>56,459</u>

19. SHARE CAPITAL

	Company
	2002
	HK\$'000
Authorised:	
1,000,000,000 ordinary shares of HK\$0.01 each	<u>10,000</u>
Issued and fully paid:	
406,251,500 ordinary shares of HK\$0.01 each	<u>4,063</u>

(a) The Company was incorporated in the Cayman Islands on 4 April 2002 with an authorised capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 10 April 2002, 102,000 shares were issued to the then shareholders of the Group.

(b) In preparation for the listing of the Company's shares on GEM of the Stock Exchange, the following changes in issued share capital of the Company took place on 16 July 2002:

- (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of 962,000,000 ordinary shares.
- (ii) as consideration for the acquisition by the Company of the entire issued share capital of BVI Holdco, an aggregate of 102,000 shares of the Company were allotted, issued at par and credited as fully paid to the then shareholders of the BVI Holdco.

19. SHARE CAPITAL *(Continued)*

- (c) On 31 July 2002, 81,251,500 shares of HK\$0.01 each were issued by way of placing at a price of HK\$0.65 per share (the "Placing") for a total cash consideration of HK\$52,813,000. The excess over the par value of the shares issued was credited to the share premium account. At the same date, 324,796,000 shares were allotted, issued at par and fully paid to the shareholders whose names appeared on the register of members of the Company on 16 July 2002 in their existing holdings by way of capitalisation of a total sum of approximately HK\$3,248,000 out of the share premium account of the Company arising from the Placing.
- (d) The share capital presented in the consolidated balance sheet as at 31 December 2001 represents the share capital of Synerex Inc. as at 31 December 2002.

Notes to the Accounts

20. RESERVES

(a) Group

	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	–	–	–	(9,138)	(9,138)
Exchange differences arising on translation of the accounts of an overseas subsidiary	–	–	(56)	–	(56)
Profit for the year	–	–	–	1,986	1,986
Premium on issue of shares of Synerex Inc.	–	11,079	–	–	11,079
At 31 December 2001	<u>–</u>	<u>11,079</u>	<u>(56)</u>	<u>(7,152)</u>	<u>3,871</u>
At 1 January 2002	–	11,079	(56)	(7,152)	3,871
Exchange differences arising on translation of the accounts of an overseas subsidiary	–	–	139	–	139
Allotment of shares <i>(note 19(a))</i>	(1)	–	–	–	(1)
Reserves arising from Reorganisation	–	78	–	–	78
Placing of shares <i>(note 19(c))</i>	52,001	–	–	–	52,001
Placing and listing expenses	(7,179)	–	–	–	(7,179)
Capitalisation issue <i>(note 19(c))</i>	(3,248)	–	–	–	(3,248)
Profit for the year	–	–	–	25,479	25,479
At 31 December 2002 before proposed final dividends	<u>41,573</u>	<u>11,157</u>	<u>83</u>	<u>18,327</u>	<u>71,140</u>
Proposed final dividends <i>(note 7)</i>	–	–	–	(4,063)	(4,063)
At 31 December 2002 after proposed final dividends	<u>41,573</u>	<u>11,157</u>	<u>83</u>	<u>14,264</u>	<u>67,077</u>

20. RESERVES (Continued)**(b) Company**

	Share premium	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Allotment of shares (note 19(a))	(1)	–	(1)
Placing of shares (note 19(c))	52,001	–	52,001
Placing and listing expenses	(7,179)	–	(7,179)
Capitalisation issue (note 19(c))	(3,248)	–	(3,248)
Premium on issue of shares			
on Reorganisation	14,879	–	14,879
Profit for the year	–	4,131	4,131
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002			
before proposed final dividends	<u>56,452</u>	<u>4,131</u>	<u>60,583</u>
Proposed final dividends (note 7)	<u>–</u>	<u>(4,063)</u>	<u>(4,063)</u>
At 31 December 2002			
after proposed final dividends	<u>56,452</u>	<u>68</u>	<u>56,520</u>

Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

21. DEFERRED TAXATION

Deferred tax asset has not been provided in the accounts as the crystallisation of the asset is uncertain. As at 31 December 2002, the unprovided deferred tax asset in respect of taxable losses amount to HK\$47,000 (2001: HK\$1,043,000).

Notes to the Accounts

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	Group	
	2002 HK\$'000	2001 HK\$'000
Operating profit	27,079	1,986
Interest income	(109)	(11)
Depreciation charges	262	44
Decrease/(increase) in inventories	8,078	(22,269)
Increase in trade receivables, deposits, prepayments and other receivables including due from a shareholder	(118,993)	(40,512)
Increase in trade payables, other payables and accruals, including due to a related company	84,063	52,709
	<u>380</u>	<u>(8,053)</u>
Net cash inflow/(outflow) from operating activities	<u>380</u>	<u>(8,053)</u>

(b) Analysis of changes in financing of the Group during the year

	Share capital, share premium and capital reserves		Due to shareholders	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 January	11,149	62	1,308	1,369
Cash inflow/(outflow) from financing	45,644	11,087	(1,308)	(61)
	<u>56,793</u>	<u>11,149</u>	<u>-</u>	<u>1,308</u>
At 31 December	<u>56,793</u>	<u>11,149</u>	<u>-</u>	<u>1,308</u>

23. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	1,131	240
Later than one year and not later than five years	198	200
	<u>1,329</u>	<u>440</u>

24. CONTINGENT LIABILITIES

As at 31 December 2002, the Company has contingent liabilities relating to corporate guarantees given in respect of banking facilities extended to certain subsidiaries approximately HK\$104,600,000.

25. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Research and development costs paid to PNS Technology Limited ("PNS") (note (a) and (c))	-	3,364
Rental paid to Pineview Industries Limited ("Pineview") (note (b) and (c))	180	180
	<u>180</u>	<u>180</u>

Notes to the Accounts

25. RELATED PARTY TRANSACTIONS *(Continued)*

- (a) The Group has entered into an agreement with 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 has granted option to acquire certain percentage of the issued shares of a subsidiary of the Group. In this connection, a fellow subsidiary of PNS has subscribed 1,000 shares in Synerex Inc., representing approximately 11% of its enlarged share capital, at a consideration of HK\$11,087,000 in June 2001. The consideration was determined according to an appraisal report issued by an independent valuer. 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 to lease office space commencing on 1 July 2001 at a monthly rental of HK\$30,000. The lease was charged at market rate and was terminated on 30 June 2002.
- (c) A director of Company, Mr ONG Se Mon, has interest in the above transactions to the extent that he is a director and has beneficial interests in PNS and Pineview.

26. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24 March 2003.

Financial Summary

	For the year ended 31 December		
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Results			
Profit/(loss) attributable to shareholders	<u>25,479</u>	<u>1,986</u>	<u>(9,114)</u>
	As at 31 December		
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Assets and liabilities			
Total assets	<u>222,607</u>	<u>65,690</u>	<u>25</u>
Total liabilities	<u>(147,404)</u>	<u>(61,749)</u>	<u>(9,101)</u>
Shareholders' funds/(deficit)	<u>75,203</u>	<u>3,941</u>	<u>(9,076)</u>

Note:

The results, assets and liabilities of the Group for three financial years have been prepared on the basis set out in note 1 to the accounts. The Financial Summary had been prepared as if the group structure, at the time when the Reorganisation was completed, had been in existence throughout the years concerned.

The Financial Summary of the Group for the years ended 31 December 2001 and 2000 have been extracted from the Company's prospectus dated 25 July 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of QUASAR COMMUNICATION TECHNOLOGY HOLDINGS LIMITED ("the Company") will be held at Room 1018, 10th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Thursday, 12 June 2003 at 10:30 a.m. for the following purposes:-

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2002.
2. To re-elect the retiring directors and to authorise the Board of Directors to fix the directors' remuneration.
3. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. To declare a final dividend for the year ended 31 December 2002.
5. As special business, to consider and if thought fit, pass the following resolutions as Ordinary Resolutions:-

A. "THAT

- (a) subject to paragraph A(b) below, the exercise by the directors of the Company ("the Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its own shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed as amended from time to time, be and is hereby generally and unconditionally approved and authorised;
- (b) the aggregate nominal amount of the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph A(a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the approval pursuant to paragraph A(a) shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; and

Notice of Annual General Meeting

- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

B. “THAT

- (a) subject to paragraph B(b) below, a general mandate be and is hereby unconditionally given to the Directors to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with the new shares in the capital of the Company or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph B(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:-
 - (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory outside Hong Kong);
 - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company;
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the articles of association of the Company; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

Notice of Annual General Meeting

- C. “THAT** conditional upon Resolutions 5A and 5B being passed, the general mandate granted to the directors of the Company pursuant to Resolution 5B to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 5A, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution.”

On behalf of the Board

RA Chang Ju

Chairman

Hong Kong, 27 March 2003

Head Office:

Rooms 1018, 10th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited with the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time appointed for holding the meeting or any adjournment hereof.
- (2) The register of members of the Company will be closed from 9 June 2003 to 12 June 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 6 June 2003.
- (3) A circular containing further details regarding Resolution no. 5 as required by the GEM Listing Rules will be despatched to shareholders together with the 2002 Annual Report.