



## **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.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of QUASAR Communication Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

• **HIGHLIGHTS**

- achieved a satisfactory growth in revenue and net profit attributable to shareholders to HK\$509 million and HK\$3,595,000 respectively
- cooperated with Korean partners in delivering design and consultancy on components for cellular phones in compliance with the customized software solutions
- continue to inject resources into our research and development of mobile phone solutions, and speed up the commercialization of the CDMA2000 1x cellular phone
- monitored closely further developments of severe acute respiratory syndrome and react to minimize the temporary impact in coming quarter

## • RESULTS

The unaudited consolidated results of QUASAR Communication Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the three months ended 31 March 2003 (the "Quarterly Period"), together with the unaudited comparative figures for the corresponding periods in 2002 were as follows:

	Notes	Three months ended 31 March	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	<b>509,216</b>	338,056
Contract costs		<b>(498,175)</b>	(332,475)
		<b>11,041</b>	5,581
Other revenues	2	<b>89</b>	2
Other operating expenses		<b>(7,011)</b>	(2,453)
Operating profit		<b>4,119</b>	3,130
Taxation	3	<b>(524)</b>	(528)
Profit for the period		<b><u>3,595</u></b>	<u>2,602</u>
Earnings per share			
– Basic (HK cents)	4	<b><u>0.88</u></b>	<u>0.80</u>



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 ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group. The shares of the Company were successfully listed on GEM on 31 July 2002.

The unaudited results 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 (the "HKSA"). They have been prepared under the historical cost convention.

In the current period, the Group adopted Statements of Standard Accounting Practice ("SSAP") 12 (revised) "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003. The adoption of SSAP12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

## 2. Revenues and turnover

The principal activity of the Group is the provision of cellular phone solutions services. Revenues recognised during the Quarterly Period, together with the comparative figures for the corresponding period in 2002 were as follows:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover		
Revenue from cost plus contracts	<b>507,087</b>	337,705
Consultancy income	<b>2,129</b>	351
	<b>509,216</b>	338,056
Other revenues		
Interest income	<b>30</b>	2
Others	<b>59</b>	-
	<b>89</b>	2
Total revenues	<b>509,305</b>	338,058

### 3. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the Quarterly Period. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rate of taxation prevailing in the country in which the subsidiary operates.

The amount of taxation charged represents:-

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	<b>524</b>	-
Deferred taxation	<b>-</b>	528
	<b>524</b>	528

Deferred tax are calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2002: 16%).

### 4. Earnings per share

The calculation of basic earnings per share for the Quarterly Period is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$3,595,000 and the weighted average number of 406,251,500 shares. The basic earnings per share for the corresponding quarterly period in 2002 is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$2,602,000 and the weighted average number of 325,000,000 shares.

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

**5. Reserves**

	<b>Share premium</b>	<b>Capital reserves</b>	<b>Exchange reserves</b>	<b>(Accumulated losses)/ retained earnings</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2002					
As previously reported	-	11,079	(56)	(7,152)	3,871
Effect of adopting SSAP 12	-	-	-	1,043	1,043
As restated	-	11,079	(56)	(6,109)	4,914
Profit for the period					
As previously reported	-	-	-	3,130	3,130
Effect of adopting SSAP 12	-	-	-	(528)	(528)
As restated	-	-	-	2,602	2,602
As at 31 March 2002 as restated	-	11,079	(56)	(3,507)	7,516
As at 1 January 2003					
As previously reported	41,573	11,157	83	18,327	71,140
Effect of adopting SSAP 12	-	-	-	47	47
As restated	41,573	11,157	83	18,374	71,187
Exchange difference on translation of overseas operations	-	-	55	-	55
Profit for the period	-	-	-	3,595	3,595
As at 31 March 2003	41,573	11,157	138	21,969	74,837
Representing:					
Reserves	41,573	11,157	138	17,906	70,774
2002 proposed final dividends	-	-	-	4,063	4,063
	41,573	11,157	138	21,969	74,837





- **INTERIM DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the Quarterly Period.

The Group has not declared any dividends for the corresponding quarterly period in 2002.

- **MANAGEMENT DISCUSSION AND ANALYSIS**

- **Financial Review**

Capturing the robust economic development in the People's Republic of China (the "PRC") through proven business model and market strategy, QUASAR recorded a satisfactory growth for the 3 months ended 31 March 2003 in comparison to the same quarter in 2002. Revenue soared from HK\$338 million to HK\$509 million. The net profit attributable to shareholders reported a 38.2% increase from HK\$2,602,000 to HK\$3,595,000 with a basic earnings per share of 0.88 cents.

To cope with the expanding business, apart from our focus on the research and development of customized solutions, the management was determined to deploy more suitable personnel and professionals to better serve our valued customers and the Group as a whole respectively. This has led to an anticipated increase in our overheads; however, such strategic move has been proven to be on the right track with more revenue generated, covering more than the additional costs. During the period under review, the Group incurred overheads of HK\$7,011,000, with staff and professional costs comprising approximately 56.2%.

## Business Review and Outlook

The telecommunication market in the PRC surged in a more than expected level during the past few years. The percentage of market share of local branded cellular phone in the PRC recorded a remarkable increment in double digit, from 21.7% in 2001 to 39.4% in 2002, and more than 50% up to February 2003. Official forecast also shows the number of cellular phone subscribers in the PRC with an expected growth from 13% to 20% in the next three years, reaching more than 300 million by 2005. These have indicated the enduring trend for product localization and the outsourced solutions requirement.

QUASAR remains committed to our clients in the provision of one-stop solution comprising software development, hardware procurement, technical consultation and after-sales technical support service. Solid revenue was achieved through the delivery of our GSM solution, while the growing demand of solution for CDMA, although contributing a relatively small proportion in our income at present, topped up to our business as an extra returns.

Realizing the importance and value of a full and complete cellular phone solution, we have cooperated with new partners in Korea in delivering design and consultancy on components for cellular phones in compliance with the customized software solutions provided. These tactical steps have further assured the reliability and comfort of our customers to our product and services.

The joint venture investment in Hangzhou Young-Bird Telecom Communication Co. Ltd. (the "JV") demonstrated a wise focus of QUASAR of its business extension to the mobile phone network infrastructure. The JV has already won its first contract in supplying the initial CDMA repeaters to Anhui province, with tenders already submitted for 2 other provinces, pending decision and finalization of China Unicom. We are confident that the future expansion of the JV shall be promising in generating additional revenue to QUASAR.



QUASAR shall continue to inject resources into our research and development of mobile phone solutions including the PDA phone and SMART phone in 2003, and speed up the commercialization of the CDMA2000 1x cellular phone within 1st half of this year.

The recent extensive outbreak of severe acute respiratory syndrome (the "SARS") in the PRC has significant knock-on effect on all business in the country, especially for consumer market. QUASAR alone cannot be exempted as the situation continues, however, we shall closely monitor further developments and react to minimize the temporary impact in coming quarter.

The emerging telecommunication market is believed to fill with opportunities, while its fast-changing characteristics posed business risks at the same time. QUASAR is optimistic in our growth and we are determined in our strategy and strengthening business network to face such momentary adverse market condition resulting from the SARS, and to capture every opportunity to fulfill our all time objective of maximizing value to our shareholders.

## • DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 31 March 2003, the interests of the directors and chief executives in the shares of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

<b>Name</b>	<b>Number of shares</b>	<b>Nature of interests</b>	<b>Percentage of interests</b>
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%
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%
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%
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%
Ong Se Mon	(Note 1)	Corporate and other interests (Note 1)	(Note 1)

Note:

1. 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 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.

**• 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 31 March 2003.

**• SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2003, the interests of persons, other than a director or chief executive of the Company, being 10% or more in the share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance, were as follows:

Name	Number of shares	Percentage of interests
Choice Media Investments Limited ("Choice Media")	148,121,186	36.46%
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	41,740,196	10.27%

*Notes:*

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

• **COMPETING INTERESTS**

As at 31 March 2003, none of the directors, the substantial shareholders or the management shareholders of the Company or their respective associates as defined in the GEM Listing Rules had any interest in business that competed or might compete with business of the Group.



- **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 March 2003, four customers of the Group, who are independent parties not connected to any of the directors of the Company, 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\$109,886,000, HK\$51,113,000, HK\$50,870,000 and HK\$26,957,000 representing approximately 146%, 68%, 68% and 36% respectively of the audited consolidated net tangible assets of the Group of 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. 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. No collateral was required to be made by such customers and no interest was charged on the trading balances.

- **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.

• **SHARE OPTION SCHEME**

Pursuant to the written resolutions of all shareholders of the Company passed on 16 July 2002, the Company adopted a Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix V to the Company's prospectus dated 25 July 2002. As at 31 March 2003, 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**

During the three months ended 31 March 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

• **SPONSOR'S INTERESTS**

As at 31 March 2003 and 9 May 2003, 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. In addition, Shenyin Wanguo Trading (H.K.) Limited, an affiliated company of the Sponsor was interested in 17,528,000 shares of the Company as at 31 March 2003 and 9 May 2003. 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.





- **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 Committee has two members comprising the two independent non-executive directors, Lee Kin Keung and Navin Kumar Aggarwal.

The Committee has already reviewed the Group's unaudited quarterly report for the three months ended 31 March 2003.

By order of the Board

**QUASAR Communication Technology Holdings Limited**

**Ra Chang Ju**

*Chairman*

Hong Kong, 13 May 2003