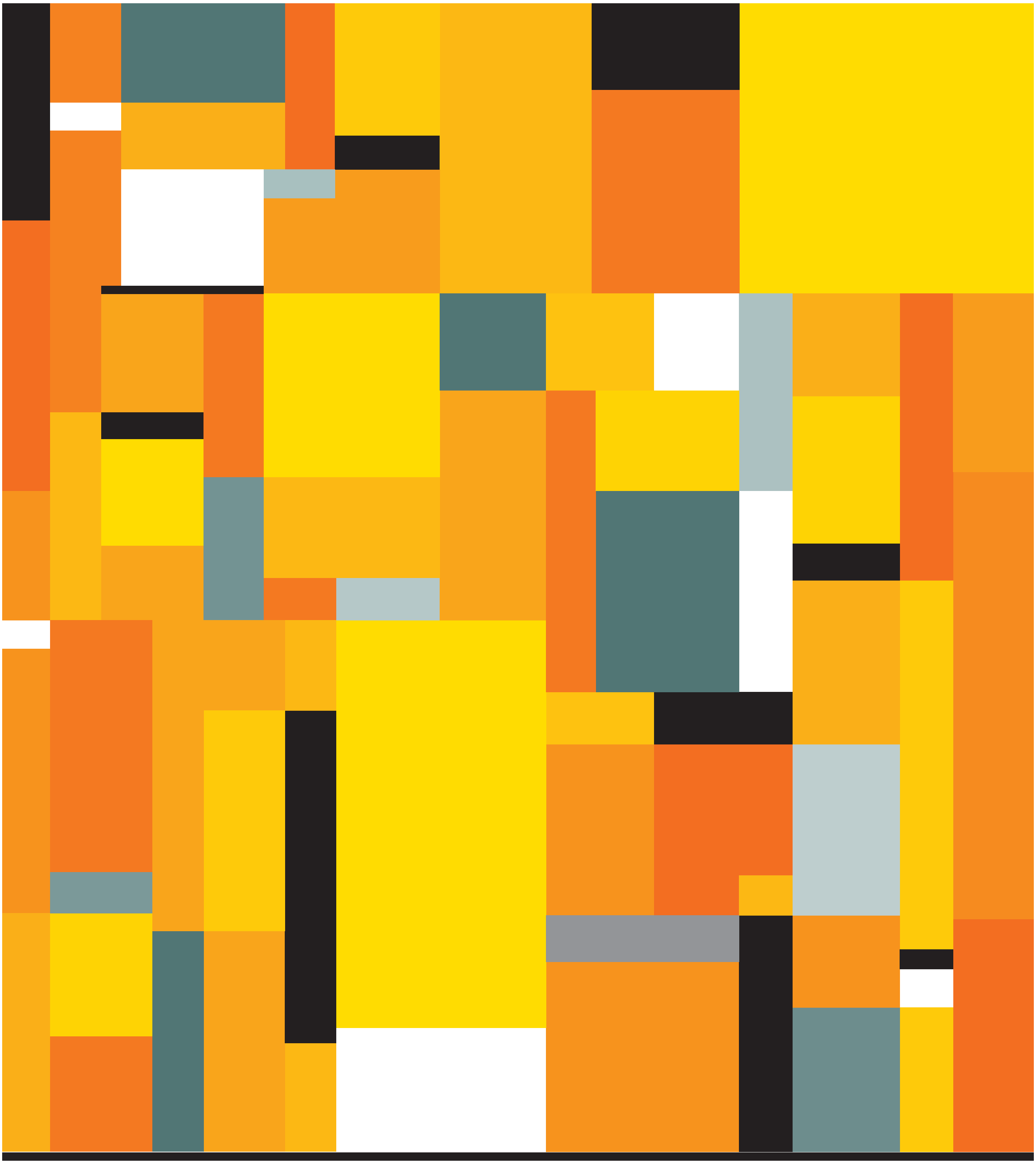

QUASAR Communication Technology Holdings Limited

ANNUAL REPORT 2003

QUASAR
COMMUNICATION TECHNOLOGY

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.

Contents

QUASAR

COMMUNICATION TECHNOLOGY

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	(Resigned on 1 August 2003)
Lo Hang Fong	(Appointed on 1 August 2003)

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	(Resigned on 1 August 2003)
Lo Hang Fong	(Appointed on 1 August 2003)

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

12th Floor, Crocodile House 1
50 Connaught Road Central
Hong Kong

Principal Bankers

Bank of China
DBS 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

The outbreak of Severe Acute Respiratory Syndrome ("SARS") throughout the globe made the year 2003 a difficult one to all individuals and entities. Quasar, unavoidably, suffered from the market downturn during the hard time and achieved a less than expected performance. However, we are assertive of our core business as a provider of customized solutions for mobile telecommunication appliances in the Asia Pacific region.

Financial Review

During the period under review, the turnover of the Group dropped by 15.81% from HK$1,373 million to HK$1,156 million. This was a result of the sluggish market sentiment in the second and third quarters when both SARS disease and surplus inventories were spread throughout the PRC, giving rise to uncertainty among industry participants against their original product rollout schedule. Internally, the management took a conservative step to review and drop certain unsatisfactory development projects on hand hit by the market disorder. Notwithstanding these adverse impact, Quasar successfully solidified a stream of stable income through its extension of business focus to the design and consultancy on components in compliance with the software solutions early in the year, and sustained a positive return to the shareholders of HK$8,530,000 for the year, representing a 65.16% decrease against the net profit after tax of HK$24,483,000 in 2002.

For the 12 months in 2003, the total operating overheads increased at the rate as anticipated by the management to HK$39,183,000. The increment was attributable to higher level of staff costs and professional fees, sales and marketing expenses and financial costs. These expenditures are believed to be worthwhile in coping with the group expansion, however, to uplift our competitiveness and profitability, Quasar is reviewing our costs structure and the possibility of streamlining to gain better efficiency and profitability.

Operational Review

The telecommunication industry in the Mainland experienced substantial transformation in the past few years. Emergence of numbers of new mobile phone brandname was recorded during 2002, fighting against the long-established foreign brand products and increasing their own individual market shares. Coping with customers' needs, Quasar took an active step and liaised with local manufacturers to secure our role as a solution provider in the industry. At the same time, we adopted a diversified approach regarding our clientele and continued to explore new customers. Quickly in the year 2003, like technological advancement, the industry came across a consolidation which local manufacturers took possession of majority of the mobile phone market. Quasar continued to deliver value and quality solutions to our partners, however, we decided to change and put our strategic focus onto these manufacturers with better and stable profitability, and more importantly, a lower level of business risk to ensure the financial security of the Group.

Understanding our growth momentum also required a lateral expansion of our customers and as a way to reduce the concentration risk in our list of clients, the Group sought and successfully extended our business partners in the country to local distributors who had strong business and financial background, as well as the capability to generate higher margin to the Group. In 2003, the Group had a total of 15 customers, almost double of last year, and the revenue contribution by the top five decreased from 98% to 80%. We saw such move help to achieve our target and create flexibility and completeness in our product solution delivery.

Product solutions development always has the first priority in our business agenda. Leveraging on our advanced technology, Quasar made commercialization the 1st generation of PDA phone through our customers during the first half of 2003. Meanwhile, our team members continued to put effort in the study of different mobile phone solutions. To tap the recent popularity of high-end mobile phones with improved features like higher resolution graphics, digital camera and MMS function, Quasar is speeding the solution development of SMART phone and prepared its commercial launch in coming year. Although the general consumption atmosphere revived swiftly after the market chaos, we still maintained our utmost scrutiny on market needs before resuming our postponed projects like the Video Telephony and a new generation of PDA phone.

One of our business targets is to broaden the geographical exposure of our product solutions. Quasar is exploring the opportunity to identify and co-operate with local partners outside the PRC in the Asia Pacific region such as Thailand and India. We expect such extra income helps consolidating our business backbone to pursue our product solutions development and form one of the major source of income in our long-term business development plan to compensate the increasing competition in our principal market.

To further strengthen the sales and marketing capabilities, we completed our office set up in Shenzhen during the year, benchmarking the Group enduing commitment and determination in our provision of solutions in China market. The Shenzhen office is expected to be in full operation by 1st half of 2004, and thereafter our clients will receive comprehensive after-sales services and technical support, and bring profitability in return to the Group and our shareholders. Meanwhile, we will continue to review the timetable of the office establishment in Shanghai and Beijing as delayed facing the uncertain socio-economic sentiment after SARS.

Prospect

Looking forward, the years ahead are believed to be more confronting to Quasar. The overall telecommunication business is described to be filled with more challenges both internally and externally as a result of (i) the new mobile phone subscribers' rate is increasing at a decreasing trend in comparison with historical record; (ii) the keen competition in price and product technology for both low-end and high-end mobile phones from Taiwan and local participants; and (iii) the gradual liberation of restrictions on the telecommunication industry which pave the way for easier entrance and more foreign investment.

Nevertheless, Quasar is well prepared and determined to capitalize on our technology strengths, thorough understanding of the market and industry knowledge to face such unfavourables. We shall adopt a conservative view and approach, and principally plan to, in 2004:

(a) collaborate to a greater extent with our customers who are the top tier group in the industry through the provision of advanced mobile phone solutions to secure both of our market positions;

(b) deliver our SMART phone solutions to suit the market demand of user friendly interface and increase application oriented product such as digital camera with flash, animated graphic and trend of real sound, which we see to be the product-dominant in the next few years;

(c) discuss the opportunity of co-operation with new mobile phone chipset providers on the delivery of basic module to expand the income stream of the Group; and

(d) carry out research and analysis, and perform feasibility study on 3G technology later this year which we believe to have a mature and promising market after 2005.

The growth and success of Quasar can only be attained with efforts and excellent performance of all staff, together the support of our business partners and bankers. I would like to express my deepest sincerity to their contribution and shall make our best efforts to deliver better results in coming years.

RA Chang Ju
Chairman

Hong Kong, 18 March 2004

Liquidity, Financial Resources and Gearing

The Group maintained a sound liquidity position. The cash on hand amounted to approximately HK$68,448,000 (2002: HK$38,911,000) with a healthy current ratio of 1.59 (2002: 1.44). As at 31 December 2003, the Group did not have any interest bearing bank and other borrowings and continued to finance its operation and capital expenditure through internally generated fund, and support certain product solutions development and business expansion from the listing proceeds as disclosed in the prospectus of the Company.

Capital Structure and Exposure to Fluctuation in Exchange Rates

During the year under review, the Group did not employ any hedging instruments for its receivables or payables as significant portion of its sales and purchase transactions were denominated in Hong Kong dollars and/or US dollars, with only a portion of the overheads were paid in Korean Won. The Directors believed the Group is subject to minimum foreign exchange risk in view of the continuation of the linked-rate system. As at 31 December 2003, substantial portion of the assets and liabilities of the Group were current in nature, and the amounts were principally denominated in Hong Kong dollars, Korean Won and US dollars.

Employees

In 2003, the Group recruited more staff and there were a total of 68 (2002: 36) full-time staff employed under the offices in Hong Kong, Korea and Singapore. The staff costs for the year under review including directors' emoluments, were approximately HK$18,329,000 (2002: HK$9,367,000), comprising salaries, wages and allowance, medical and insurance coverage, pension fund scheme and discretionary bonus. The doubled increase was attributable to the deployment of more human resources in Hong Kong and Korea to cater for the business expansion.

Significant Investments and Material Acquisitions

During the period under review, the Group has no new investment or material acquisitions. The Group continued to maintain its 8% long-term interest in Hangzhou Young-Bird Communication Telecom Co., Ltd, a joint venture formed between a PRC and a Korean party in October 2002. The joint venture is principally engaged in the design, manufacture, sale and maintenance of CDMA repeaters.

Charge and Contingent Liabilities

There were guarantees to the extent of HK$119,000,000 (2002: HK$104,600,000) given to banks by the Company in respect of banking facilities made available to certain wholly owned subsidiaries, but no pledged deposits were placed in banks for securing such facilities or other borrowings. As at 31 December 2003, the Group had commitment under operating leases amounting to approximately HK$1,797,000 (2002: HK$1,329,000) and there was no charges on any assets of the Group.

Comparison of Business Objectives with Actual Business Progress

Summary of the actual progress of the Group compared with the business objectives set out in the prospectus of the Company for the period from 1 January 2003 to 31 December 2003.

Cellular phone solutions development

CDMA2000 1x cellular phones

Business objectives: Complete prototype formulation and specification, and commercial launch for 2nd generation

Actual progress: The Group was still in discussion with customers on the commercialization of the 1st generation while the initial viability study and assessment of 2nd generation was delayed due to the unsatisfactory market demand of the products as a result of insufficient network coverage and ineffective costs and benefits of industry providers, both for hardware and software

PDA phones

Business objectives: Complete prototype formulation and specification finalization, and commercial launch for 2nd generation

Actual progress: The 1st generation of PDA phone was launched in 2nd quarter of 2003. The directors considered the existing market environment to be immature for the 2nd generation and therefore postponed the development schedule

Video Telephony

Business objectives: Complete technical viability assessment, specification definition, software development and prototype formulation for 1st generation

Actual progress: The preliminary technical viability assessment of Video Telephony was finished and the Group prepared to adopt the display motion picture solution of the Video Telephony to integrate into a camcorder phone. The management expected that the specification definition, software development and prototype formulation of such phone shall be done by late 2004

SMART phones

Business objectives: Complete technical viability assessment, specification definition and software development

Actual progress: The Group completed the technical viability assessment and specification definition. For software development, the OS solution was finished and the integration of software and hardware was in progress. The solution is expected to be launched by 1st half of 2004.

Other solutions development

Digital product

Business objectives:	Complete technical viability assessment, specification definition and prototype formulation for 2nd generation
Actual progress:	The directors considered the existing demand of the products to be insignificant and therefore postponed the development schedule

CDMA2000 1x repeaters

Business objectives:	Installation and provision of maintenance service on CDMA2000 1x repeaters
Actual progress:	The joint venture investment, Hangzhou Young-Bird Telecom Communication Co. Ltd. (the "JV") has installed repeaters in Anhui and Neimeng provinces, and has commenced its after-sales maintenance service

Sales and marketing capability

Business objectives:	Set up of sales office in Beijing
Actual progress:	The Group has completed the office establishment in Shenzhen, while the set up of Beijing office was postponed due to the outbreak of SARS and uncertain socio-economic environment in the PRC

Technical support capability

Business objectives:	Set up of solution development team in Shenzhen
Actual progress:	As a result of the outbreak of SARS in the PRC, the Group set up the solution development team in Korea including the purchase of development equipment and office area and targeted to gradually relocate the team back to Shenzhen. The management has no specific time schedule of the relocation at present and will closely monitor the market environment in the PRC

Others

Business objectives:	Office expansion
Actual progress:	The expansions were carried out both in Hong Kong and Korea including the recruitment of more human resources, equipment and office areas, and were completed by end of October 2003
Business objectives:	Installation of management information system

Actual progress: The installation of management information system ("MIS") was completed in early 2003, and in order to cope with the office expansion, a further enhancement of the MIS was done, mainly related to the improvement of internal communication, i.e. intranet and routine application software

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on GEM of the Stock Exchange on 31 July 2002, after deduction of the related issue expenses, were applied as follows:

	As stated in prospectus up to 31 December 2003	**Actual amount used up to 31 December 2003**
	HK$'000	*HK$'000*
Cellular phone solutions development	14,508	8,285
Other solutions development	9,828	7,800
Sales & marketing capabilities	644	965
Technical support capabilities	4,600	3,062
Others	4,400	9,201
	33,980	29,313

The total investments for the implementation of the business objectives were principally financed by the net proceeds from the Placing of shares, and the rest through the Group's internal resources. The total costs incurred was approximately HK$29,313,000 that included about HK$5,282,000 being financed by internal generated fund. As at 31 December 2003, the balance of the unused proceeds which are not immediately applied are placed on deposits with financial institutions in Hong Kong.

Executive Directors

Ra Chang Ju, aged 39, 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 36, 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 41, 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 16 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 47, 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, aged 40, 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 43, holds a Bachelor of Commerce degree and a Master of Commerce 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 15 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.

Lo Hang Fong, aged 40. Mr Lo is a solicitor practising in Hong Kong and is currently a partner with Messrs Stevenson Wong & Co. Solicitors & Notaries. He has acquired over 12 years of experience in corporate advisory on mergers and acquisitions, initial public offerings and loan syndication. He was appointed as an independent non-executive director of the Company on 1 August 2003.

Company Secretary & Qualified Accountant

Chu Kin Men, aged 30, is the Company Secretary of the Company and accounting manager of the Group. 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 big accounting firms.

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2003.

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 16 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 18.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company are set out in note 21 to the accounts.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2003 amounted to HK$56,533,000 (2002: 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 by-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 is set out on page 45.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

Directors

The directors during the year were:

Executive directors:

Mr Ra Chang Ju
Mr Jo Won Seob
Mr Kim Kwang Hoe
Mr Park Seung Rae
Mr Ong Se Mon, alias WANG Shih Wen

Independent non-executive directors:

Mr Lee Kin Keung	
Mr Navin Kumar Aggarwal	(resigned on 1 August 2003)
Mr Lo Hang Fong	(appointed on 1 August 2003)

In accordance with Article 87 of the Company's Articles of Association, Mr Kim Kwang Hoe and Mr Lo Hang Fong shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical Details of Directors and Senior Management

Brief biographical details of directors and senior management are set out on page 9.

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 of Significance

No contracts of significance in relation to the Group's business to which the Company 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 Shares and Underlying Shares

As at 31 December 2003, the interests of the directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Long position in ordinary shares of HK$0.01 each of 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 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 Mr Ong Se Mon is beneficially interested in 11,102,000 shares of PINE Technology which represents approximately 1.6% of the issued share capital of PINE Technology.

Save as disclosed above, at no time during the year, the directors and chief executive (including their spouses 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 SFO).

Share Option Scheme

Pursuant to a written resolution of all shareholders of the Company passed on 16 July 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 30 July 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue, or if such 10% limit is refreshed, the maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of HK$5,000,000 in the 12 month period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

HK$1 shall be paid to the Company upon acceptance of the option. Options may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors of the Company, which period may not expire earlier than 3 years and later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The exercise price is determined by the directors of the Company, and will not be less than the higher of closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

As at 31 December 2003, no option had been granted or agreed to be granted by the Company under the Share Option Scheme.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the section "Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2003, the Company had been notified of the following substantial shareholders' interests and short positions, 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 executive.

Long positions in the shares

Name of shareholder	Number of shares	Percentage of interests
Choice Media Investments Limited ("Choice Media")	148,121,186	36.46%
Mr Chan Ka Wo (*Note 1*)	148,121,186	36.46%
i.Concept (*Note 2*)	41,740,196	10.27%
Pan Eagle Limited (*Note 2*)	41,740,196	10.27%
Pine Technology (BVI) Limited (*Note 2*)	41,740,196	10.27%
PINE Technology (*Note 2*)	41,740,196	10.27%
Shenyin Wanguo Strategic Investments (H.K.) Limited	20,000,000	4.92%
Shenyin Wanguo Trading (H.K.) Limited	21,628,000	5.32%
Shenyin Wanguo (H.K.) Limited (*Note 3*)	41,628,000	10.24%

Short positions in the shares

Name of shareholder	Number of shares	Percentage of interests
PINE Technology	20,312,575	5.00%

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. Accordingly, Mr Chan Ka Wo is deemed to be interested in all the share registered in the name of Choice Media.

2. The entire issued share capital of i.Concept is legally and beneficially owned by Pan Eagle Limited and the entire issued share capital of Pan Eagle Limited is legally and beneficially owned by Pine Technology (BVI) Limited. The entire issued share capital of Pine Technology (BVI) Limited is, in turn, legally and beneficially owned by PINE Technology. Accordingly, 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.

3. The entire issued share capital of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Limited are legally and beneficially owned by Shenyin Wanguo (H.K.) Limited. Accordingly, Shenyin Wanguo (H.K.) Limited is deemed to be interested in all the shares registered in the name of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Limited.

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	53%
– five largest suppliers combined	76%
Sales	
– the largest customer	42%
– five largest customers combined	80%

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 2003, Ningbo Bird Co., Ltd., who is an independent party 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 balance with the Group of approximately HK$39,189,000 representing approximately 49% of the audited consolidated net tangible assets of the Group of approximately HK$79,882,000 as at 31 December 2003.

The above-mentioned customer is a major cellular phone company in the PRC to whom the Group provides cellular phone solutions. Such trading balance was resulted from sales to such customer by the Group in its ordinary course of business and repayable in accordance with the credit terms as agreed with the customer. No collateral was required to be made by such customer and no interest was charged on the trading balance.

Audit Committee

The Company established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The Committee has two members comprising Messrs. Lee Kin Keung and Lo Hang Fong and Mr Lee Kin Keung has been appointed chairman of the Committee. Mr Navin Kumar Aggarwal resigned as a member of the Committee with effect from 1 August 2003 and Mr Lo Hang Fong was appointed as the replacement with effect from 1 August 2003.

The Committee has met once for the year ended 31 December 2003 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

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 throughout the year.

Sponsor's Interest

As at 31 December 2003, Shenyin Wanguo Strategic Investments (H.K.) Limited, 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 21,628,000 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 11 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, 18 March 2004

PRICEWATERHOUSECOOPERS

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TO THE SHAREHOLDERS OF
QUASAR COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 18 to 44 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 18 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	2003 HK$'000	As restated 2002 HK$'000
Turnover	3	**1,155,690**	1,372,729
Contract costs		**(1,107,218)**	(1,329,527)
Gross profit		**48,472**	43,202
Other revenues	3	**324**	193
Research and development costs		**(3,308)**	(2,656)
Depreciation of fixed assets		**(428)**	(262)
Staff costs, including directors' emoluments	4	**(18,329)**	(9,367)
Other operating expenses		**(17,118)**	(4,031)
Operating profit	5	**9,613**	27,079
Finance costs	6	**(81)**	–
Profit before taxation		**9,532**	27,079
Taxation	7	**(1,002)**	(2,596)
Profit attributable to shareholders	8 & 21	**8,530**	24,483
Dividends	9	**–**	4,063
Basic earnings per share	10	**2.10 cents**	6.81 cents

As at 31 December 2003

	Note	2003 HK$'000	As restated 2002 HK$'000
Non-current assets			
Fixed assets	13	**2,427**	817
Investment securities	14	**9,142**	9,142
Intangible assets	15	**16**	16
Deferred tax assets	2(k) & 22	**246**	47
		11,831	10,022
Current assets			
Inventories	17	**15,270**	14,191
Trade receivables	18	**85,017**	147,813
Deposits, prepayments and other receivables		**14,728**	11,717
Cash and bank balances		**68,448**	38,911
		183,463	212,632
Current liabilities			
Trade payables	19	**108,286**	139,496
Other payables and accruals		**4,480**	6,308
Taxation payable		**2,630**	1,600
		115,396	147,404
Net current assets		**68,067**	65,228
Total assets less current liabilities		**79,898**	75,250
Financed by:			
Share capital	20	**4,063**	4,063
Reserves	21(*a*)	**75,664**	67,124
Proposed final dividend	21(*a*)	**–**	4,063
Shareholders' funds		**79,727**	75,250
Deferred tax liabilities	2(k) & 22	**171**	–
		79,898	75,250

On behalf of the Board

Ra Chang Ju
Director

Jo Won Seob
Director

Balance Sheet

As at 31 December 2003

	Note	**2003**	2002
		HK$'000	HK$'000
Non-current assets			
Intangible assets	15	**16**	16
Investments in subsidiaries	16	**60,628**	63,610
		60,644	63,626
Current assets			
Prepayments		**18**	1,113
Bank balances		**14**	7
		32	1,120
Current liabilities			
Accruals		**80**	100
		80	100
Net current (liabilities)/assets		**(48)**	1,020
Total assets less current liabilities		**60,596**	64,646
Financed by:			
Share capital	20	**4,063**	4,063
Reserves	21*(b)*	**56,533**	56,520
Proposed final dividend	21*(b)*	**–**	4,063
Shareholders' funds		**60,596**	64,646

On behalf of the Board

Ra Chang Ju
Director

Jo Won Seob
Director

For the year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
Total equity as at 1 January, as previously reported		**75,203**	3,941
Effect of the adoption of revised SSAP 12	2(k) & 21	**47**	1,043
Total equity as at 1 January, as restated		**75,250**	4,984
Exchange differences arising on translation of the financial statements of foreign subsidiary	21	**10**	139
		75,260	5,123
Profit for the year	21	**8,530**	24,483
Dividends		**(4,063)**	–
Issue of shares	20 & 21	**–**	52,823
Share issue expenses	21	**–**	(7,179)
Total equity as at 31 December		**79,727**	75,250

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
Net cash inflow generated from operations	23(*a*)	**35,770**	380
Interest paid		**(81)**	–
Net cash inflow from operating activities		**35,689**	380
Investing activities			
Purchase of fixed assets		**(2,444)**	(550)
Sale of fixed assets		**248**	–
Purchase of intangible assets		**(1)**	(16)
Payments for investments		**–**	(7,842)
Interest received		**95**	109
Net cash outflow from investing activities		**(2,102)**	(8,299)
Net cash inflow/(outflow) before financing		**33,587**	(7,919)
Financing activities			
Net repayment to shareholders	23(*b*)	**–**	(1,308)
Issue of ordinary shares		**–**	52,823
Share issue expenses		**–**	(7,179)
Dividends paid		**(4,063)**	–
Net cash (outflow)/inflow from financing		**(4,063)**	44,336
Increase in cash and cash equivalents		**29,524**	36,417
Cash and cash equivalents at 1 January		**38,911**	2,355
Effect of foreign exchange rate changes		**13**	139
Cash and cash equivalents at 31 December		**68,448**	38,911
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**68,448**	38,911

1. 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. 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.

(b) 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 ("HKSA"). 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.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" (revised) issued by HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting this new policy are set out below.

(a) Group accounting

(i) *Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

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 meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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.

2. **Principal accounting policies** *(continued)*

(a) **Group accounting** *(continued)*

(ii) *Translation of foreign currencies*

Translations 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.

(b) **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.

(c) **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 assets.

(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.

2. **Principal accounting policies** *(continued)*

(d) Fixed assets

(i) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Depreciation*

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%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) *Impairment and gain or loss on sale*

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.

(e) 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)*

(f) Inventories

(i) *Finished goods*

Finished goods 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 profit less progress billings.

(g) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(h) 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.

(i) 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) 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.

2. **Principal accounting policies** *(continued)*

(j) Employee benefits *(continued)*

(ii) *Profit sharing and bonus plans*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans is expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Retirement benefit costs*

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.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 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.

As detailed in note 21 to the accounts, opening retained earnings at 1 January 2002 and 2003 have been increased by HK$1,043,000 and HK$47,000 respectively, which represent the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets at 1 January 2002 by HK$1,043,000, and the profit for the year ended 31 December 2002 have been decreased by HK$996,000.

2. Principal accounting policies *(continued)*

(l) 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.

(iii) *Interest income*

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

(m) Investment 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 account 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.

2. **Principal accounting policies** *(continued)*

(n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

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	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Revenue from cost plus contracts	**1,152,999**	1,353,638
Technical consultancy income	**2,691**	19,091
	1,155,690	1,372,729
Other revenues		
Interest income	**95**	109
Rental income	**137**	39
Other	**92**	45
	324	193
Total revenues	**1,156,014**	1,372,922

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 2003 and 2002, 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 2003 and 2002, total capital expenditure incurred for the business amounted to HK$2,444,000 and HK$550,000 respectively.

4. Staff costs, including directors' emoluments

	Group	
	2003	2002
	HK$'000	*HK$'000*
Wages and salaries, allowances and other benefits in kind	17,501	8,889
Retirement benefit costs (*Note 11*)	755	419
Others	73	59
	18,329	9,367

5. Operating profit

Operating profit is stated after charging the following:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Auditor's remuneration	**494**	450
Cost of inventory sold	**1,107,218**	1,329,527
Loss on disposals of fixed assets	**155**	–
Net exchange losses	**171**	117
Operating lease rental in respect of land and buildings	**1,740**	962
Total research and development costs	**19,995**	18,842
Less: costs incurred for cost plus projects	**(16,687)**	(16,186)
Research and development costs charged to profit and loss account	**3,308**	2,656

6. Finance costs

	2003	2002
	HK$'000	*HK$'000*
Interest on bank overdrafts and bank loan	**81**	–

7. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Korea.

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong Profits Tax	**816**	1,600
– Overseas taxation	**214**	–
Deferred taxation relating to the origination and reversal of temporary differences (*Note* 22)	**(28)**	996
Taxation charges	**1,002**	2,596

7. Taxation *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003	2002
	HK$'000	HK$'000
Profit before taxation	**9,532**	27,079
Calculated at a taxation rate of 17.5% (2002: 16%)	**1,668**	4,333
Effect of different taxation rates in Korea	**(521)**	–
Income not subject to taxation	**(485)**	(1,737)
Expenses not deductible for taxation purposes	**184**	–
Utilisation of previously unrecognised tax losses	**(104)**	–
Tax losses not recognised	**257**	–
Increase in opening net deferred tax assets resulting from an increase in tax rate	**1**	–
Others	**2**	–
Taxation charge	**1,002**	2,596

8. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit for the year of HK$13,000 (2002: HK$4,131,000).

9. Dividends

	Group	
	2003	2002
	HK$'000	HK$'000
Final, proposed, of HK$Nil (2002: HK$0.01) per ordinary share	**–**	4,063

10. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$8,530,000 (2002: HK$24,483,000) and the weighted average number of 406,251,500 shares (2002: 359,281,455 shares) in issue during the year. In determining the weighted average number of shares in issue in 2002, 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 20 to the accounts, were deemed to have been in issue on 1 January 2002.

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

11. 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.

Contribution to defined contribution scheme was charged to the profit and loss account represents contributions payable by the Group to the schemes.

The total contribution to the retirement benefit scheme paid and payable by the Group amounted to HK$755,000 (2002: HK$419,000) for the year.

12. 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	
	2003	2002
	HK$'000	*HK$'000*
Fees	**240**	110
Other emoluments		
– Basic salaries, allowances and other benefits in kind	**4,521**	3,239
– Retirement benefit costs	**113**	77
	4,634	3,316
	4,874	3,426

Directors' fee disclosed above include HK$240,000 (2002: HK$110,000) paid to former and present independent non-executive directors.

During the year, each of the five executive directors of the Company received emoluments from the Group of HK$1,367,000 (2002: HK$1,062,000), HK$1,145,000 (2002: HK$740,000), HK$635,000 (2002:HK$635,000), HK$ 831,000 (2002: HK$564,000) and HK$656,000 (2002: HK$315,000) respectively.

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

12. Directors' and senior management's emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2002: four) directors whose emoluments are reflected in the analysis in note (a) above. The emoluments payable to the remaining one individual in year 2002 are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Other emoluments		
– Basic salaries, housing allowances, other allowance and benefits in kind	–	310
– Bonus	–	31
– Retirement benefit costs	–	15
	–	356

(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.

13. 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 2003	563	146	414	1,123
Exchange adjustment	(3)	–	–	(3)
Additions	1,580	852	12	2,444
Disposals	(331)	(176)	–	(507)
At 31 December 2003	**1,809**	**822**	**426**	**3,057**
Accumulated depreciation				
At 1 January 2003	151	26	129	306
Charge for the year	244	77	107	428
Disposals	(97)	(7)	–	(104)
At 31 December 2003	**298**	**96**	**236**	**630**
Net book value				
At 31 December 2003	**1,511**	**726**	**190**	**2,427**
At 31 December 2002	412	120	285	817

14. Investment securities

	Group	
	2003	2002
	HK$'000	HK$'000
Unlisted investment, at cost	**9,142**	9,142

15. Intangible assets

	Group and Company	
	2003	2002
	HK$'000	HK$'000
Trademarks		
Cost		
At 1 January	**16**	–
Additions	**1**	16
At 31 December	**17**	16
Accumulated amortisation		
Charge for the year	**1**	–
Net book value	**16**	16

16. Investments in subsidiaries

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted investment at cost (*note (a)*)	**14,882**	14,882
Due from subsidiaries (*note (b)*)	**45,972**	48,728
Due to subsidiary (*note (b)*)	**(226)**	–
	60,628	63,610

16. Investments in subsidiaries *(continued)*

(a) The following is a list of subsidiaries of the Company as at 31 December 2003:

	Name	Country/place of incorporation	Principal activities and place of operations	Particulars of issued and fully paid up share capital	Percentage of interest held
	Shares held directly:–				
	Ace Solution Technology Limited	The British Virgin Islands	Investment holding in Hong Kong	10,200 ordinary shares of US$1 each	100%
	Shares held indirectly:–				
	Synerex Inc.	The British Virgin Islands	Investment holding in Hong Kong	10,200 ordinary shares of US$1 each	100%
	Zetta Media Holdings Limited	The British Virgin Islands	Investment holding in Hong Kong	100 ordinary shares of US$1 each	100%
	Gold Glory Development Limited	The British Virgin Islands	Investment holding in Hong Kong	2,000 ordinary shares of US$1 each	100%
	Zetta Global Limited	Hong Kong	Development and sale of mobile appliances solution and the provision of relating management services 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 KRW5,000each	100%
	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%
	Qualfield Ltd.	The 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%

Subsidiary not audited by PricewaterhouseCoopers. The aggregate net asset of the subsidiary not audited by PricewaterhouseCoopers amounted to approximately 1% (2002: 3%) of the Group's total asset.

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

17. Inventories

	Group 2003 HK$'000	2002 HK$'000
Finished goods	**144**	–
Contract work in progress (*note (a)*)	**15,126**	14,191
	15,270	14,191

At 31 December 2003, all finished goods are carried at cost.

(a) Contract work in progress

	Group 2003 HK$'000	2002 HK$'000
Product development costs, parts and components and technical support services costs plus attributable profits	**29,263**	392,978
Less: progress billings to date	**(14,137)**	(378,787)
	15,126	14,191

18. Trade receivables

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

	Group 2003 HK$'000	2002 HK$'000
Current	**78,590**	133,984
1 - 30 days	**4,607**	13,829
31 - 60 days	**333**	–
Over 60 days	**1,487**	–
	85,017	147,813

19. Trade payables

The ageing analysis of the trade payables are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Current	**81,724**	102,839
1 - 30 days	**26,033**	36,657
31 - 60 days	**501**	–
Over 60 days	**28**	–
	108,286	139,496

20. Share capital

	Authorised (Ordinary shares of HK$0.01 each)			
	2003		2002	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
At 1 January	**1,000,000,000**	**10,000**	–	–
Authorised ordinary share capital upon incorporation	–	–	38,000,000	380
Increase in authorised ordinary share capital	–	–	962,000,000	9,620
At 31 December	**1,000,000,000**	**10,000**	1,000,000,000	10,000

	Issued and fully paid (Ordinary shares of HK$0.01 each)			
	2003		2002	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
At 1 January	**406,251,500**	**4,063**	–	–
Placing of shares	–	–	81,251,500	813
Capitalisation issue	–	–	324,796,000	3,248
Shares issued upon incorporation of the Company	–	–	102,000	1
Shares issued for the acquisition by the Company of the issued capital of the BVI Holdco	–	–	102,000	1
At 31 December	**406,251,500**	**4,063**	406,251,500	4,063

21. Reserves

(a) Group

	Share premium HK$'000	Capital reserves HK$'000	Exchange reserves HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1 January 2002, as previously reported	–	11,079	(56)	(7,152)	3,871
Effect of the adoption of revised SSAP 12 (*note* 2(k))	–	–	–	1,043	1,043
At 1 January 2002, as restated	–	11,079	(56)	(6,109)	4,914
Exchange differences arising on translation of the accounts of an overseas subsidiary	–	–	139	–	139
Allotment of shares	(1)	–	–	–	(1)
Reserves arising from Reorganisation	–	78	–	–	78
Placing of shares	52,001	–	–	–	52,001
Placing and listing expenses	(7,179)	–	–	–	(7,179)
Capitalisation issue	(3,248)	–	–	–	(3,248)
Profit for the year, as restated	–	–	–	24,483	24,483
At 31 December 2002 before proposed final dividends	41,573	11,157	83	18,374	71,187
Representing:					
2002 final dividends proposed (*Note* 9)	–	–	–	4,063	4,063
Reserves	41,573	11,157	83	14,311	67,124
	41,573	11,157	83	18,374	71,187
At 1 January 2003 before proposed final dividends, as previously reported	41,573	11,157	83	18,327	71,140
Effect of the adoption of revised SSAP 12 (*note* 2(k))	–	–	–	47	47
At 1 January 2003, as restated	41,573	11,157	83	18,374	71,187
Exchange differences arising on translation of the accounts of an overseas subsidiary	–	–	10	–	10
2002 final dividends paid (*Note* 9)	–	–	–	(4,063)	(4,063)
Profit for the year	–	–	–	8,530	8,530
At 31 December 2003	**41,573**	**11,157**	**93**	**22,841**	**75,664**

21. Reserves *(continued)*

(b) Company

	Share premium	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*
Allotment of shares	(1)	–	(1)
Placing of shares	52,001	–	52,001
Placing and listing expenses	(7,179)	–	(7,179)
Capitalisation issue	(3,248)	–	(3,248)
Premium on issue of shares on Reorganisation	14,879	–	14,879
Profit for the year	–	4,131	4,131
At 31 December 2002			
before proposed final dividends	56,452	4,131	60,583
Representing:			
2002 final dividends proposed (*Note* 9)	–	4,063	4,063
Reserves	56,452	68	56,520
	56,452	4,131	60,583
At 1 January 2003	56,452	4,131	60,583
Profit for the year	–	13	13
2002 final dividends paid (*Note* 9)	–	(4,063)	(4,063)
At 31 December 2003	**56,452**	**81**	**56,533**

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.

22. Deferred taxation

The movement on the deferred tax liabilities/(assets) account is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
At 1 January	**(47)**	(1,043)
Deferred taxation credited to profit and loss account (*Note 7*)	**(28)**	996
At 31 December	**(75)**	(47)

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same Taxation jurisdiction) during the year is as follows:

	Group	
	Accelerated tax depreciation	
Deferred tax liabilities	**2003**	2002
	HK$'000	*HK$'000*
At 1 January	–	–
Charged to profit and loss account	**209**	–
At 31 December	**209**	–

	Group	
	Tax losses	
Deferred tax assets	**2003**	2002
	HK$'000	*HK$'000*
At 1 January	**(47)**	(1,043)
(Credited)/charged to profit and loss account	**(237)**	996
At 31 December	**(284)**	(47)

	2003	2002
	HK$'000	*HK$'000*
Deferred tax assets	**(246)**	(47)
Deferred tax liabilities	**171**	–
	(75)	(47)

The total amounts of both deferred tax assets and deferred tax liabilities will be recovered/settled after more than 12 months.

23. Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	Group	
	2003	2002
	HK$'000	HK$'000
Profit before taxation	**9,532**	27,079
Interest income	**(95)**	(109)
Interest expenses	**81**	–
Loss on disposal of fixed assets	**155**	–
Depreciation charges	**428**	262
Amortisation of intangible assets	**1**	–
(Increase)/decrease in inventories	**(1,079)**	8,078
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	**59,785**	(118,993)
(Decrease)/increase in trade payables, other payables and accruals	**(33,038)**	84,063
Net cash inflow from operating activities	**35,770**	380

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

	Share capital, share premium and capital reserves	**Due to shareholders**
	HK$'000	HK$'000
Balance at 1 January 2002	11,149	1,308
Cash inflow/(outflow) from financing	45,644	(1,308)
Balance at 31 December 2002 and 2003	56,793	–

24. Commitments

(a) Capital commitments for research and development projects

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted but not provided for	**5,705**	–

(b) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Not later than one year	**1,452**	1,131
Later than one year and not later than five years	**345**	198
	1,797	1,329

25. Contingent liabilities

As at 31 December 2003, the Company has contingent liabilities relating to corporate guarantees given in respect of banking facilities extended to certain subsidiaries of approximately HK$119,000,000 (2002: HK$104,600,000).

26. Approval of accounts

The accounts were approved by the board of directors on 18 March 2004.

	2003 HK$'000	As restated 2002 HK$'000	As restated 2001 HK$'000	As restated 2000 HK$'000
Results				
Profit attributable to shareholders	**8,530**	24,483	3,029	(7,629)
Assets and liabilities				
Total assets	**195,294**	222,654	66,733	1,510
Total liabilities	**(115,567)**	(147,404)	(61,749)	(9,101)
Shareholders' funds	**79,727**	75,250	4,984	(7,591)

Note:

The results, assets and liabilities of the Group for four 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 IS HEREBY GIVEN THAT the Annual General Meeting of QUASAR Communication Technology Holdings Limited (the "Company") will be held at 12th Floor, Crocodile House 1, 50 Connaught Road Central, Hong Kong on Friday, 18 June 2004 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 2003.

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. 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

(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."

C. **"THAT** conditional upon Resolutions 4A and 4B being passed, the general mandate granted to the directors of the Company pursuant to Resolution 4B 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 4A, 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, 25 March 2004

Head Office:
12th Floor, Crocodile House 1
50 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 of authority, not less than 48 hours before the time appointed for holding the meeting or any adjournment hereof.