
# QUASAR Communication Technology Holdings Limited

## Annual Report 2005

(Stock Code : 8171)

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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*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

## EXECUTIVE DIRECTORS

Chan Ka Wo    Chairman (Appointed on 16 January 2006)
Ra Chang Ju    Chief Executive Officer
Ong Se Mon
Park Seung Rae (Resigned on 4 November 2005)
Kim Kwang Hoe (Resigned on 4 November 2005)

## INDEPENDENT NON - EXECUTIVE DIRECTORS

Lo Hang Fong
Li Meng Long
Choy Mun Kei (Appointed on 4 November 2005)
Lee Kin Keung (Resigned on 4 November 2005)

## COMPLIANCE OFFICER

Ra Chang Ju

## COMPANY SECRETARY

Shum Hoi Luen (Appointed on 4 November 2005)
Ng Yuk Chun (Resigned on 4 November 2005)

## AUTHORISED REPRESENTATIVE

Ra Chang Ju
Shum Hoi Luen (Appointed on 4 November 2005)
Ng Yuk Chun (Resigned on 4 November 2005)

## QUALIFIED ACCOUNTANT

Shum Hoi Luen (Appointed on 4 November 2005)
Ng Yuk Chun (Resigned on 4 November 2005)

## AUDIT COMMITTEE

Lo Hang Fong
Li Meng Long
Choy Mun Kei (Appointed on 4 November 2005)
Lee Kin Keung (Resigned on 4 November 2005)

## 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 (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
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
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

## AUDITORS

Cachet Certified Public Accountants Limited and CCIF CPA Limited

## LEGAL ADVISER

**As to Cayman Islands Law**
Conyer Dill & Pearman

**As to Hong Kong Law**
Michael Li & Co

## STOCK QUOTE

8171

## WEBSITE OF THE COMPANY

www.quasarcomm.com

# Chairman's Statement

In 2005, several significant events took place in the China mobile phone industry and brought along drastic impact to the market.

Sizeable investments from foreign investors drove tremendous growth of the low-end mobile phone market. Experts from Sino Market Research Ltd. concluded two main causes for such drastic growth: (1) foreign manufacturers have been more enthusiastic in investing into China's low-end mobile phone market; and (2) China's two mobile telecom operators, China Telecom and China Unicom, adjusted their pricing strategy by launching bundled low-end product series with Nokia and Motorola respectively.

Structural change of the mobile phone industry has negatively affected overall performance of local mobile phone manufacturers with detrimental impact visible in the first half of 2005. Besides taking over market shares in the low-end market, the influx of international brands also diminished profit margin of local mobile phone manufacturers. The key factors that determined whether a local manufacturer could turn around by the second half of 2005 were continual advancement in technology, quality control and effective inventory management.

Product life span and price level has been diminishing with continual advancements in mobile technology and changes in consumer demand. Manufacturers are now introducing more new models over a shorter period of time so as to offset decline in average selling price. Research and development on areas such as hardware configuration and mobile applications has been much slower than what the market expected and this has fostered growth of local mobile phone design companies. In order to produce more user-friendly mobile phone models for the local market, manufacturers are now cooperating seamlessly with local design companies, which has, in turn, produced a more matured and diversified market.

Under the Administrative Licensing Law of China, which has become effective from July 1 2005, a number of new mobile phone manufacturers were permitted to participate in the market. According to statistics from the Ministry of Information Industry ("MII"), approximately 20 new licenses were awarded to new mobile phone manufacturers in 2005, which has added up to a total of approximately 60 mobile phone licenses now in the market. This was the first attempt taken by the MII since it announced stop in issuing new mobile phone license to manufacturer in May 2000.

Facing dynamic market changes, we are still confident with the future of the telecom industry in China backed by the proven potential for further expansion, the rising customer demand for mobile phones, and the positive policies and measures adopted by the Telecom Management Bureau, which will benefit all telecom operators as a whole. Confronted with the currently stringent market condition, QUASAR will strive to maintain our market position to provide premium products and services to our customers.

## FINANCIAL REVIEW

During the year ended 31 December 2005, turnover of the Group declined by 53.1% from HK$650 million recorded in the same period in 2004 to HK$305 million. Gross profit dropped by 10.7% from HK$28 million to HK$25 million as compared to 2004. The Group was also turnaround from a loss of HK$8.8 million in 2004 to a profit of HK$5.7 million in 2005.

By providing quality mobile phone solutions and after-sales services to our customers; and change of the product by selling higher profit margin's parts and components in the current year, the Group was able to increase gross profit ratio despite the intense competition. Besides the provision of quality consultancy services that fit the market needs, our highly effective product mix, streamlined operational overhead costs also helped sustain the growth of the Group.

With the disposal of all issued share capital (the "Disposal") of Quasar Communication Technology Korea Ltd. ("Quasar Korea"), a wholly owned subsidiary of the Group, we completed the final process of business integration and manpower reorganization. Staff cost, including continuing and discontinued operations, drastically reduced from HK$21 million in 2004 to HK$10 million in 2005. Reduction in overhead cost made essential cost saving possible while at the same time genuinely improved efficiency and competitiveness of our operation. With such encouraging result, the Group will continue to optimize operational efficiency while ensure the quality of our products and services at the same time.

## OPERATIONAL REVIEW

On 20 June 2005, the Sales and Purchase Agreement to dispose all issued share capital of Quasar Korea was signed. With the completion of the Disposal by end of the third quarter of 2005, key engineering personnel of Quasar Korea was relocated to the Group's operation in China. The Group believes the Disposal represents a pragmatic means to effectively reduce overhead cost, optimize engineering support and manage production quality as well.

While development of truly quality products for the market remains the key business objective of the Group, we also pay perpetual efforts to upgrade our products with changing customer needs. With an aim to strengthen product quality, the Group entered into another Sales and Purchase Agreement, with details disclosed in the circular dated 3 January 2006 (the "Acquisition"), to acquire a joint stock limited company, 東莞市晶捷電訊產品有限公司 ("Dongguan Jingjie"). Incorporated in China, core businesses of Dongguan Jingjie involved production and sale of telecom and communications products, and also development of new communications products in China. The Group expects the Acquisition to be completed by end of the second quarter of 2006 with final approval of legal documents by the Administrative Bureau of Industry and relevant authorities.

With the completion of the two transactions listed above, the Group will achieve major cost saving effects while at the same time able to exercise better quality control over products and services rendered.

## PROSPECT

We remain positive towards the China market as it is currently the largest market in the world with the number of mobile phone users surging to higher levels from time to time.

Number of mobile phone users increased by 58.6 million in 2005 alone and the figure is rising continuously. The MII projected that 33% of China's total population (approximately 441 million), will become mobile phone users by 2006 with an annual growth rate of 12.2%, which represents approximately 48 million new subscribers. At the same time, growth rate of mobile phone replacement market will also increase from 30% – 40% in 2005 to approximately 40% – 50% in 2006. We will soon witness the impressive growing trend in both the new subscribers market and replacement market in 2006.

As mentioned by iSuppli, growth of the mobile phone industry will be driven mainly by existing users who demand for replacement of mobile phones instead of by new subscribers. One of the strategies adopted by the Group is to boost level of customer satisfaction to new heights from time to time with the constant upgrade of product quality. The Group's acquisition of Dongguan Jingjie was one of the active moves taken to attain such goal. Furthermore, with more mobile phone manufacturing licenses issued, the Group has planned to identify key strategic partners by providing incremental value-added services on mobile phone integration and quality control management. We believe this would benefit the group as a whole.

Demand for low-end products has skyrocketed during the year while mobile phones with multimedia functions have become the best-sellers. We will continue to diversify our product range by providing products with multimedia features such as MP3, MP4, Karaoke and high-performance pixel camera, etc, which are commonly found in products developed by international brand.

Policies and measures recently announced by the Telecom Management Bureau under MII would definitely favor telecom operators in the course of developing full spectrum of telecom services. Therefore, we are still very confident with the development potential of the telecom industry in China in the long term.

We expect 2006 to be a more promising but yet still challenging year for QUASAR. Leveraging on our prudent and experienced management and our strong and determined workforce, we will strive to maintain and further expand our market share while at the same time bring along greater return to our shareholders.

The growth and success of QUASAR can only be accomplished with the efforts and excellent performance of all staff, together with the support of our business partners and bankers. I would like to take this opportunity to express my most sincere gratitude towards their contributions. We will devote our best efforts to deliver the best results in upcoming years.

**Chan Ka Wo**
*Chairman*

Hong Kong, 28 March 2006

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group 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. The Group maintained a healthy liquidity position with a current ratio of approximately 1.82 (2004: 1.53) and total cash and bank balances amounted to approximately HK$62,602,000 (2004: HK$57,417,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 31 December 2005, the gearing ratio based on total liabilities over total assets was approximately 52.11% (2004: 58.95%).

## CAPITAL STRUCTURE AND FLUCTUATION IN EXCHANGE

During the year under review, sales and purchases of the Group were mainly transacted in US dollars and Hong Kong dollars. As at 31 December 2005, substantial portion of the assets and liabilities of the Group were current in nature, and the amounts were principally denominated in US dollars and Hong Kong dollars, foreign exchange risk was considered to be minimal.

## EMPLOYEES

As at 31 December 2005, there was a total of 22 (2004: 52) full-time staff employed by the Group. The staff costs, including continuing and discontinued operations for the year including directors' remuneration were approximately HK$10,407,000 (2004: HK$21,109,000). The total amount comprised salaries, wages and allowance, medical and insurance coverage, pension fund scheme and discretionary bonus. The 50.70% decrease was attributable to the disposal of Quasar Communication Technology Korea Ltd. in the third quarter of 2005.

## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the year under review, the Group did not have any significant investment or material acquisitions. The Group continued to maintain its 8% long-term interest in the joint venture (the "JV"), Hangzhou Young-Bird Communication Telecom Co., Ltd. The JV 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$240,000,000 (2004: HK$240,000,000) given to banks by the Company in respect of banking facilities available to certain wholly owned subsidiaries. As at 31 December 2005, the Group had commitment under operating lease amounting to approximately HK$912,000 (2004: HK$1,034,000) and there was no charges on any assets of the Group.

## 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.

## BOARD PRACTICES AND PROCEDURES

The Company was in compliance with the Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules throughout the year.

## DIRECTOR' INTERESTS IN COMPETING BUSINESS

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

## EXECUTIVE DIRECTORS

Chan Ka Wo, aged 44, is the Chairman of the Group. He is responsible for the overall management of the board. Mr. Chan holds a master degree in electronic engineering and a bachelor degree in electrical and electronic engineering from James Cook University in Australia. Mr. Chan has over 18 years of experience in the field of telecommunications. Mr. Chan participated in many telecommunication infrastructure projects in Hong Kong and the PRC and through his participation in these infrastructure projects, Mr. Chan gained knowledge on the development of the infrastructure for the telecommunication industry. He was appointed as Director on 16 January 2006.

Ra Chang Ju, aged 41, is the Chief Executive Officer of the Group. He is responsible for the overall strategic planning and organisation 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.

Ong Se Mon, aged 42, holds a bachelor degree in statistics and computer science from the University of New South Wales, Australia. He has over 14 years of experience in the computer industry and held senior management position in an actuary and consulting firm.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Lo Hang Fong, aged 42. Mr. Lo is a solicitor practicing in Hong Kong and is currently a partner with Messrs. Stevenson Wong & Co. Solicitors & Notaries. He has acquired over 14 years of experience in corporate advisory on mergers and acquisitions, initial public offerings and loan syndication.

Li Meng Long, aged 42. Mr. Li is currently a partner of a law firm in Peoples' Republic of China (the "PRC"). He has been served as a practicing solicitor in the PRC for over 9 years. Mr. Li graduated from 哈爾濱理工大學 of the PRC with bachelor of engineer degree in 1985 and 中國人民大學 of the PRC with bachelor of law degree in 1989.

Choy Mun Kei, aged 41. Mr. Choy is currently a company secretary of a company listed in the main board of the Stock Exchange. He received a Master of Corporate Finance from The Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants and a certified public accountant (practising) of The Hong Kong Institute of Certified Public Accountants. He was appointed as an Independent Non-executive Director on 4 November 2005.

## COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Shum Hoi Luen, aged 30, is the company secretary and senior accounting manager of the Group. He holds a bachelor degree in accountancy from The Hong Kong Polytechnic University. Mr. Shum is an associate member of The Hong Kong Institute of Certified Public Accountants. He has over 8 years of experience in accounting and auditing field.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year except that the Group discontinued its activity in the development of software and solutions for mobile appliances in the Republic of Korea (note 12).

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 68.

The directors do not recommend the payment of a dividend for the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 69. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's share capital and share options during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$72,457,000. This includes the Company's share premium account, in the amount of HK$41,573,000 which may be distributed provided that immediately following the date, on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 58.85% of the total sales for the year and sales to the largest customer included therein accounted for to 15.44%. Purchases from the Group's five largest suppliers accounted for 50.61% of the total purchases for the year and purchases to the largest supplier included therein 19.52%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

**Executive directors:**

Mr. Ra Chang Ju
Mr. Ong Se Mon
Mr. Chan Ka Wo (appointed on 16 January 2006)
Mr. Park Seung Rae (resigned on 4 November 2005)
Mr. Kim Kwang Hoe (resigned on 4 November 2005)

**Independent non-executive directors:**

| | |
|---|---|
| Mr. Lo Hang Fong | |
| Mr. Li Meng Long | |
| Mr. Choy Mun Kei | (appointed on 4 November 2005) |
| Mr. Lee Kin Keung | (resigned on 4 November 2005) |

In accordance with Clause 87 of the Company's Articles of Association, Messrs. Ra Chang Ju and Choy Mun Kei will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Messrs. Lo Hang Fong, Li Meng Long and Choy Mun Kei and as at the date of this report still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

All the executive directors of the Company have each entered into a service contract with the Company for an initial term of three years, except for Mr. Chan Ka Wo. All the above-mentioned service contracts are continuous until terminated by either party giving to the other not less than six months' notice in writing, or otherwise in accordance with its terms.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings and monitored by the remuneration committee on a continuous basis. Other emoluments are determined by the Company's remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules, were as follows:

***Long positions in ordinary shares of the Company:***

| | | Number of shares held, capacity and nature of interest | | |
|---|---|---|---|---|
| **Name of director** | *Notes* | **Through controlled corporation** | **Total** | **Percentage of the Company's issued share capital** |
| Mr. Ra Chang Ju | *1* | 14,338,235 | 14,338,235 | 3.53% |
| Mr. Ong Se Mon | *2, 3* | 50,000,000 | 50,000,000 | 12.31% |

*Notes:*

1. These shares are registered in the name of Digit Success Investments Limited ("Digit Success"). Mr. Ra Chang Ju legally and beneficially owns the entired issued share capital of Digit Success. Accordingly, Mr. Ra Chang Ju is deemed to be interested in all the shares registered in the name of Digit Success.

2. These shares are registered in the name of Pilot Choice Management Limited ("Pilot Choice"). Mr. Ong Se Mon legally and beneficially owns the entire issued capital of Pilot Choice. Accordingly, Mr. Ong Se Mon is deemed to be interested in all the shares registered in the name of Pilot Choice.

3. Saved as disclosed in note 2 above, Mr. Ong Se Mon is also beneficially interested in the shares registered under 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 an approximately 0.61% of the issued share capital of PINE Technology. PINE Technology has 10.27% indirect interest in the Company.

Save as disclosed above, as at 31 December 2005, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules.

## CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

***Long positions:***

| Name of shareholder | *Notes* | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|---|
| Choice Media Investments Limited ("Choice Media") | *1* | Beneficial owner | 74,621,186 | 18.37% |
| Mr. Chan Ka Wo | *1* | Corporate interests | 74,621,186 | 18.37% |
| Pilot Choice | *2* | Beneficial owner | 50,000,000 | 12.31% |
| i.Concept | *3* | Beneficial owner | 41,740,196 | 10.27% |
| Pan Eagle Limited | *3* | Corporate interests | 41,740,196 | 10.27% |
| Pine Technology (BVI) Limited | *3* | Corporate interests | 41,740,196 | 10.27% |
| PINE Technology | *3* | Corporate interests | 41,740,196 | 10.27% |
| Shenyin Wanguo Strategic Investments (H.K.) Limited | *4* | Beneficial owner | 20,000,000 | 4.92% |
| Shenyin Wanguo Trading (H.K.) Limited | *4* | Beneficial owner | 21,628,000 | 5.32% |
| Shenyin Wanguo (H.K.) Limited | *4* | Corporate interests | 41,628,000 | 10.25% |

*Short positions:*

| Name of shareholder | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| i.Concept | Beneficial owner | 20,312,575 | 5.00% |
| Pan Eagle Limited | Corporate interests | 20,312,575 | 5.00% |
| Pine Technology (BVI) Limited | Corporate interests | 20,312,575 | 5.00% |
| PINE Technology | Corporate interests | 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 entired issued share capital of Pilot Choice is legally and beneficially owned by Mr. Ong Se Mon. The shares referred to herein relate to the same parcel of shares in the Company held by Pilot Choice.

3. 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.

4. 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 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.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

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.

## AUDITORS

PricewaterhouseCoopers acted as the auditors of the Company for the three years ended 31 December 2001, 2002 and 2003. Deloitte Touche Tohmatsu acted as the auditors of the Company for the year ended 31 December 2004.

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Cachet Certified Public Accountants Limited and CCIF CPA Limited were appointed by the directors to fill the casual vacancy so arising. A resolution for the reappointment of Cachet Certified Public Accountants Limited and CCIF CPA Limited as joint auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chan Ka Wo**
*Chairman*

Hong Kong
28 March 2006

## CORPORATE GOVERNANCE PRACTICES

The Company recognises that establishment and implementation of good corporate governance standards helps the Group to achieve its corporate objectives and fulfill the expectations of shareholders and stakeholders effectively. Therefore, the Board of Directors (the "Board") of the Company, with effect from 1 January 2005, has fully applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for certain minor deviations in respect of the service term and rotation of directors. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors. All Directors confirmed that they complied with the required standards as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year.

## BOARD OF DIRECTORS

The Board of the Company as at the date of the annual report comprises:

| | |
|---|---|
| Executive Directors : | Mr. Chan Ka Wo |
| | Mr. Ra Chang Ju |
| | Mr. Ong Se Mon |
| Independent Non-executive Directors : | Mr. Lo Hang Fong |
| | Mr. Li Meng Long |
| | Mr. Choy Mun Kei |

The Board is responsible for the leadership and control of the Company. It also oversees the Group's businesses, strategic decisions and directions, and performances. The management was delegated the authority and responsibility by the Board for the general management of the Group. In addition, the Board has also delegated various responsibilities to other committees. Further details of the committees are set out in this report.

The Board has four scheduled regular meetings a year at quarterly interval and meets as and when required. During the year ended 31 December 2005, the Board held 8 meetings. The attendance of each Director at the board meetings during the year are as follows:

| Directors | | Number of attendance |
|---|---|---|
| Mr. Ra Chang Ju | | 8/8 |
| Mr. Ong Se Mon | | 8/8 |
| Mr. Lo Hang Fong | | 8/8 |
| Mr. Li Meng Long | | 8/8 |
| Mr. Chan Ka Wo | (appointed on 16 January 2006) | 0/0 |
| Mr. Choy Mun Kei | (appointed on 4 November 2005) | 3/3 |
| Mr. Kim Kwang Hoe | (resigned on 4 November 2005) | 1/6 |
| Mr. Park Seung Rae | (resigned 4 November 2005) | 1/6 |
| Mr. Lee Kin Keung | (resigned on 4 November 2005) | 1/6 |

Board minutes are kept by the Company Secretary of the Company. Draft and final versions of the Board minutes are sent to the Directors for their comments and records, in both cases within a reasonable time after the meeting.

The Directors enable, upon the reasonable request, to seek independent professional advice under appropriate circumstances, at the Company's expenses, in order to discharge their responsibilities and duties under appropriate independent professional advice.

Appropriate insurance cover has been arranged in respect of legal action against its Directors.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To ensure the compliance with the new CG Code, the role of the Chairman and Chief Executive Officer of the Company are segregated with effect from 16 January 2006. Currently, the Chairman and Chief Executive Officer of the Company is Mr. Chan Ka Wo and Mr. Ra Chang Ju, respectively.

The Chairman's and the Chief Executive Officer's responsibility is to manage the Board and the Group's day-to-day business, respectively.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The three Independent Non-executive Directors of the Company are persons of high calibre, with academic and professional qualifications in the field of accounting and law. With their solid experience, they can provide strong support to perform their duties delegated by the Board effectively.

All Independent Non-executive Directors are considered to be independent by the Board as the Board received from each of the annual confirmation of independence as required by the GEM Listing Rules.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established a Remuneration Committee in December 2005. All of the members of the Remuneration Committee are the Independent Non-executive Directors of the Company, namely Mr. Li Meng Long, Mr. Lo Hang Fong and Mr. Choy Mun Kei. During the year, no meeting was held. The first meeting is scheduled to be convened for the review and recommendation to the Board in respect of the salaries and bonuses of the Directors and the senior management for the year ended 31 December 2005.

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors and the senior management.

Details of the Directors' emoluments of the Company is set out in the note 8 to the financial statements.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to the bye-laws of the Company (the "Bye-laws"), (i) any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election and (ii) Directors holding office as the Chairman of the Board shall not be subject to retirement by rotation. Such practice deviates from the provision A.4.2 of the CG Code which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every Director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board will propose to put forth a special resolution to amend the Bye-laws to comply with the said code provision.

The Company has no fixed terms of appointment for Independent Non-executive Directors. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Bye-laws. Such practice deviates from the provision A.4.1 of the CG Code which requires that Non-executive Directors be appointed for a specific term. The Board has discussed and concluded that the current practice of appointing Independent Non-executive Directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

## EXTERNAL AUDITORS

For the year ended 31 December 2005, Cachet Certified Public Accountants Limited and CCIF CPA Limited, the existing external joint auditors provided the following services to the Group:

| | 2005 |
|---|---|
| | *HK$'000* |
| Annual audit services | 300 |
| Taxation advisory services | – |
| Other advisory services | 130 |

## AUDIT COMMITTEE

The Audit Committee currently comprises all three Independent Non-executive Directors of the Company, Mr. Li Meng Long as the Chairman and Mr. Lo Hang Fong and Mr. Choy Mun Kei as the members, who among themselves possess management experience in the accounting and law. The attendance of each member at the meeting during the year is set out as follows:

| | | Number of attendance |
|---|---|---|
| Mr. Li Meng Long | (Chairman) | 4/4 |
| Mr. Lo Hang Fong | | 4/4 |
| Mr. Choy Mun Kei | | 1/1 |
| Mr. Lee Kin Keung | (resigned on 4 November 2005) | 1/3 |

Full minutes of Audit Committee meetings are kept by a duly appointed Secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the committee for their comments and records, in both cases within a reasonable time after the meeting.

The Audit Committee reviews the quarterly results, interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

**Cachet Certified Public Accountants Limited**
德揚會計師事務所有限公司
Suite 913, 9/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong

**CCIF CPA LIMITED**
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To the members
QUASAR Communication Technology Holdings Limited
*(Incorporated in Cayman Islands with limited liability)*

We have audited the financial statements on pages 22 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Cachet Certified Public Accountants Limited**
*Certified Public Accountants*

Chan Chi Yuen
Practising Certificate Number P02671
28 March 2006
Hong Kong

**CCIF CPA Limited**
*Certified Public Accountants*

Betty P.C. Tse
Practising Certificate Number P03024
28 March 2006
Hong Kong

# Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2005

| | Notes | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| REVENUE | 5 | 273,760 | 488,352 |
| Cost of sales | | (254,889) | (478,815) |
| Gross profit | | 18,871 | 9,537 |
| Other income and gains | 5 | 4,481 | 58 |
| Research and development costs | | (168) | – |
| Depreciation of property, plant and equipment | | (203) | (93) |
| Staff costs | 7 | (5,008) | (7,651) |
| Other expenses | | (6,991) | (3,927) |
| Impairment loss on investment in securities | | – | (2,500) |
| Impairment loss on available-for-sale investments | | (3,000) | – |
| Finance costs | 6 | (906) | (591) |
| PROFIT/(LOSS) BEFORE TAXATION | 7 | 7,076 | (5,167) |
| Taxation | 10 | (638) | (812) |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | | 6,438 | (5,979) |
| LOSS FROM DISCONTINUED OPERATION | 12 | (711) | (2,862) |
| | | 5,727 | (8,841) |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| Basic | | | |
| – For profit/(loss) for the year | 13 | 1.41 cents | (2.18) cents |
| – For profit/(loss) from continuing operations | 13 | 1.58 cents | (1.47) cents |
| Diluted | | | |
| – For profit/(loss) for the year | 13 | N/A | N/A |
| – For profit/(loss) from continuing operations | 13 | N/A | N/A |

# Consolidated Balance Sheet

31 DECEMBER 2005

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *14* | 234 | 5,514 |
| Other intangible assets | *15* | – | 14 |
| Investment in securities | *17* | – | 6,642 |
| Available-for-sale investments | *18* | 3,642 | – |
| Deferred tax assets | *23* | 246 | 246 |
| Prepaid licence fees | | 4,368 | 5,460 |
| Total non-current assets | | 8,490 | 17,876 |
| CURRENT ASSETS | | | |
| Inventories | *19* | 9,875 | 7,502 |
| Contract works in progress | *20* | 20,595 | 31,600 |
| Trade receivables | *21* | 46,487 | 49,368 |
| Prepayments, deposits and other receivables | | 11,742 | 9,672 |
| Cash and bank balances | | 62,602 | 57,417 |
| Total current assets | | 151,301 | 155,559 |
| CURRENT LIABILITIES | | | |
| Trade payables | *22* | 7,810 | 71,625 |
| Bill payables | | 15,639 | 9,347 |
| Trust receipt loans | | 54,854 | 14,139 |
| Other payables and accruals | | 979 | 3,566 |
| Tax payable | | 3,965 | 3,382 |
| Total current liabilities | | 83,247 | 102,059 |
| NET CURRENT ASSETS | | 68,054 | 53,500 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 76,544 | 71,376 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | *23* | 24 | 175 |
| Net assets | | 76,520 | 71,201 |
| EQUITY | | | |
| Issued capital | *24* | 4,063 | 4,063 |
| Reserves | | 72,457 | 67,138 |
| Equity attributable to equity holders of the Company | | 76,520 | 71,201 |

**Chan Ka Wo**
*Director*

**Ra Chang Ju**
*Director*

# Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2005

| | Equity attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Issued capital** | **Share premium** | **Exchange reserve** | **Capital reserve** | **Retained profits** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* *(Note 1)* | *HK$'000* | *HK$'000* |
| At 1 January 2004 | 4,063 | 41,573 | 93 | 11,157 | 22,841 | 79,727 |
| Loss for the year | – | – | – | – | (8,841) | (8,841) |
| Exchange realignment | – | – | 315 | – | – | 315 |
| At 31 December 2004 and at 1 January 2005 | 4,063 | 41,573 | 408 | 11,157 | 14,000 | 71,201 |
| Profit for the year | – | – | – | – | 5,727 | 5,727 |
| Exchange realignment | – | – | (10) | – | – | (10) |
| Disposal of a subsidiary | – | – | (398) | – | – | (398) |
| At 31 December 2005 | 4,063 | 41,573 | – | 11,157 | 19,727 | 76,520 |

*Note:*

1. Capital reserve represents the difference between the nominal value of the share capital issued by the Company as consideration and the underlying net assets of the subsidiaries acquired pursuant to the group reorganisation.

YEAR ENDED 31 DECEMBER 2005

| | Notes | 2005 HK$'000 | 2004 HK$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before taxation | | 6,365 | (8,012) |
| Adjustments for: | | | |
| Impairment losses on investments in securities | | – | 2,500 |
| Impairment losses on available-for-sale investments | | 3,000 | – |
| Provision for impairment of receivables | 7 | 605 | – |
| Finance costs | | 906 | 594 |
| Interest income | | (268) | (51) |
| Loss/(gain) on disposal of property, plant and equipment | | 2,132 | (832) |
| Gain on disposal of a subsidiary | 27 | (2,989) | – |
| Depreciation of property, plant and equipment | 14 | 1,522 | 1,714 |
| Amortisation of intangible assets and prepaid licence fees | | 1,106 | 2 |
| Operating profit/(loss) before working capital changes | | 12,379 | (4,085) |
| Increase in inventories | | (3,563) | (7,358) |
| Decrease/(increase) in contract works in progress | | 11,005 | (16,474) |
| Increase/(decrease) in trade receivables | | (20,730) | 35,649 |
| Increase/(decrease) in prepayments, deposits and other receivables | | (3,129) | 303 |
| Decrease in trade and bill payables | | (33,285) | (27,314) |
| (Increase)/decrease in other payables and accruals | | 7,635 | (914) |
| Cash used in operations | | (29,688) | (20,193) |
| Interest received | | 268 | 51 |
| Interest paid | | (906) | (594) |
| Profits tax paid | | (55) | (780) |
| Net cash outflow from operating activities | | | |
| – Continuing operations | | (30,381) | (17,689) |
| – Discontinued operation | | – | (3,827) |
| | | (30,381) | (21,516) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | 14 | (1,573) | (5,861) |
| Proceeds from disposal of property, plant and equipment | | – | 2,162 |
| Disposal of a subsidiary | 27 | (3,462) | – |
| Net cash outflow from investing activities | | | |
| – Continuing operations | | (5,035) | – |
| – Discontinued operation | | – | (3,699) |
| | | (5,035) | (3,699) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New trust receipt loans | | 40,715 | 14,139 |
| Net cash inflow from financing activities | | | |
| – Continuing operations | | 40,715 | 14,139 |
| – Discontinued operation | | – | – |
| | | 40,715 | 14,139 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 5,299 | (11,076) |
| Cash and cash equivalents at beginning of year | | 57,417 | 68,448 |
| Effect of foreign exchange rate changes, net | | (114) | 45 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 62,602 | 57,417 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 62,602 | 57,417 |

# Balance Sheet

31 DECEMBER 2005

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Intangible assets | 15 | – | 14 |
| Interests in subsidiaries | 16 | 58,579 | 59,367 |
| Total non-current assets | | 58,579 | 59,381 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | | 150 | 270 |
| Cash and bank balances | | 16 | 48 |
| Total current assets | | 166 | 318 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 142 | 120 |
| Total current liabilities | | 142 | 120 |
| NET CURRENT ASSETS | | 24 | 198 |
| Net assets | | 58,603 | 59,579 |
| EQUITY | | | |
| Issued capital | 24 | 4,063 | 4,063 |
| Reserves | 26 | 54,540 | 55,516 |
| Total equity | | 58,603 | 59,579 |

**Chan Ka Wo**
*Director*

**Ra Chang Ju**
*Director*

## 1. CORPORATE INFORMATION

QUASAR Communication Technology Holdings Limited is a limited liability company incorporated in Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

During the year, the Group was involved in sales and marketing of mobile appliance and its relevant parts solution in Hong Kong, except that the Group discontinued its activity in the development of software solution for mobile appliances in the Republic of Korea (Note 12).

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for financial instruments, which have been measured at fair value.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |
| HKFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 33, 36, 37, 38 and HKFRS 2 and 3 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting HKAS 32 and HKAS 39 – Financial Instruments is that in prior years, the Group classified its investments in equity securities as investments in securities, which were held for long-term strategic purposes and were stated at cost less impairment loss. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the carrying amount of HK$3,642,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The adoption of HKFRS 5 had no significant impact on the Group's financial statements except for disclosure requirements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKAS 19 Amendment | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 Amendment | The Effects of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKFRSs 1 & 6 Amendments | First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |
| HK(IFRIC)-Int 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC)-Int 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach Under HKAS 29 Financial Reporting in Hyperinflationary Economics |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

HK(IFRIC)-int 7 shall be applied for annual periods beginning on or after 1 March 2006.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements include the financial statements of companies comprising the Group for the year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

A subsidiary is an entity whose financial and operating policies are under the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets and non-current assets/disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of assets *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Furniture and fixtures | 20% to 25% |
| Office and computer equipment | 20% to 25% |
| Motor vehicles | 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Non-current assets and disposal groups held for sale and discontinued operations

i) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

*Trademarks*

Trademarks are stated at cost and are amortised on the straight-line basis over their estimated useful lines.

*Research and development costs*

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products commencing from the date when the products are put into commercial production.

### Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets

***Applicable to the year ended 31 December 2004:***

The Group classified its equity investments, other than subsidiaries, as long term investments.

Investment in securities are non-trading investments in listed and unlisted equity securities intended to be held for a long term strategic purpose.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at cost or estimated fair value less impairment loss. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

***Applicable to the year ended 31 December 2005:***

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investment, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near terms. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intented to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interests method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimate is significant for that investment or (b) the probabilities or the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Revenue Recognition

*Contract*

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".

Revenue from costs plus contracts is recognised by reference to 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.

*Technical consultancy income and agency fee income*

Technical consultancy income and agency fee income are recognised when the services are rendered.

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interests rate applicable.

### Employee benefits

*Paid leave carries forward*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

*Retirement benefits scheme*

The Group operates defined contribution retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. With respect of the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

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

The mandatory provident fund scheme cost and Korea Contribution charged to the consolidated income statement represents contributions payable by the Group to the schemes.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

### Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibility and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

### Estimated fair value of financial assets

The estimation of fair value of financial assets required the Group to estimate the future market value expected to be received from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as over 90% of the Group's revenue and assets relate to the business of provision of cellular phone solutions to the PRC market

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Revenue** | | | |
| Rendering of services | | | |
| – Continuing operations | | 273,760 | 488,352 |
| – Discontinued operation | 12 | 31,283 | 161,404 |
| | | 305,043 | 649,756 |
| **Other income** | | | |
| Bank interest income | | 247 | 39 |
| Others | | 1,245 | 19 |
| | | 1,492 | 58 |
| **Gains** | | | |
| Gain on disposal of a subsidiary | 27 | 2,989 | – |
| | | 4,481 | 58 |

## 6. FINANCE COSTS

Finance costs represent interests on bank borrowings wholly repayable within five years.

## 7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | 254,889 | 478,815 |
| Amortisation of prepaid licence fees * | | 1,092 | – |
| Amortisation of intangible assets | | 14 | 2 |
| Minimum lease payments under operating leases in respect of land and buildings | | 459 | 427 |
| Auditors' remuneration | | 300 | 390 |
| Employee benefits expense (including directors' remuneration *(note 8)*): | | | |
| Wages and salaries | | 4,777 | 7,039 |
| Others | | 142 | 382 |
| Pension scheme – defined contributions | | 123 | 230 |
| Less: Forfeited contributions | | (34) | – |
| Net pension scheme contributions ** | | 89 | 230 |
| | | 5,008 | 7,651 |
| Provision for impairment of receivables | | 605 | – |

* The amortisation of prepaid licence fees for the year are included in "Cost of sales" on the face of the consolidated income statement.

** At 31 December 2005, the Group had forfeited contributions of HK$34,000 available to reduce its contributions to the pension schemes in future years (2004: Nil).

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Fees | **298** | 254 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,578** | 3,770 |
| Pension scheme contributions | **22** | 101 |
| | **1,600** | 3,871 |
| | **1,898** | 4,125 |

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mr. Lo Hang Fong | **120** | 120 |
| Mr. Lee Kin Keung | **101** | 120 |
| Mr. Li Meng Long | **58** | 14 |
| Mr. Choy Mun Kei | **19** | – |
| | **298** | 254 |

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

## 8. DIRECTORS' REMUNERATION *(Continued)*

### (b) Executive directors

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2005** | | | | |
| Executive directors: | | | | |
| Mr. Ra Chang Ju | **–** | **825** | **11** | **836** |
| Mr. Kim Kwang Hoe | **–** | **560** | **245** | **805** |
| Mr. Ong Se Mon | **–** | **655** | **11** | **666** |
| Mr. Park Seung Rae | **–** | **203** | **–** | **203** |
| | **–** | **2,243** | **267** | **2,510** |
| 2004 | | | | |
| Executive directors: | | | | |
| Mr. Ra Chang Ju | – | 1,190 | 42 | 1,232 |
| Mr. Kim Kwang Hoe | – | 745 | 13 | 758 |
| Mr. Ong Se Mon | – | 615 | 28 | 643 |
| Mr. Park Seung Rae | – | 646 | – | 646 |
| Mr. Jo Won Seob | – | 574 | 18 | 592 |
| | – | 3,770 | 101 | 3,871 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **1,188** | 1,505 |
| Pension scheme contributions | **22** | 65 |
| | **1,210** | 1,570 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2005** | 2004 |
| Nil to HK$1,000,000 | **2** | 2 |

## 10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | 638 | 812 |

A reconciliation of the tax expense applicable to profit/(loss) before taxation using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit/(loss) before taxation (including loss for discontinued operation) | 6,365 | | (8,012) | |
| Tax at the statutory tax rate | 1,114 | 17.5 | (1,402) | 17.5 |
| Income not subject to tax | (94) | (1.5) | (139) | 1.7 |
| Expenses not deductible for tax | 106 | 1.7 | 1,133 | (14.1) |
| Tax losses utilised | (697) | (11.0) | – | – |
| Tax losses not recognised | 184 | 2.9 | 1,250 | (15.6) |
| Others | 25 | 0.4 | (13) | 0.2 |
| Tax charge at effective rate | 638 | 10.0 | 829 | (10.3) |
| Tax charge attributable to discontinued operation (note 12) | – | | (17) | |
| | 638 | | 812 | |

## 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$976,000 (2004: HK$1,017,000).

## 12. DISCONTINUED OPERATION

On 17 October 2005, the shareholders of the Company approved the disposal of the entire issued share capital of Quasar Communication Technology Korea Ltd ("Quasar Korea"), a wholly owned subsidiary of the Company, which was completed on 19 October 2005. Quasar Korea is principally engaged in the development of software and solutions for mobile appliances in the Republic of Korea.

The results of Quasar Korea for the year/period are presented below:

| | Notes | Period from 1 January 2005 to 19 October 2005 HK$'000 | Year ended 31 December 2004 HK$'000 |
|---|---|---|---|
| REVENUE | | | |
| – External sales | 5 | 31,283 | 161,404 |
| – Intercompany sales | | 451 | 212,419 |
| | | 31,734 | 373,823 |
| Cost of sales | | (25,737) | (355,308) |
| Gross profit | | 5,997 | 18,515 |
| Expenses | | (6,708) | (21,360) |
| Loss before tax | | (711) | (2,845) |
| Tax | 10 | – | (17) |
| Loss for the period/year | | (711) | (2,862) |

## 13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the net profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

A diluted earnings/(loss) per share amount for the years ended 31 December 2005 and 2004 has not been disclosed as no diluting events existed during the years.

The calculations of basic and diluted earnings/(loss) per share are based on:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Earnings** | | |
| Net profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation: | | |
| From continuing operations | 6,438 | (5,979) |
| From discontinued operation | (711) | (2,862) |
| Net profit/(loss) attributable to ordinary equity holders of the Company | 5,727 | (8,841) |

| | Number of shares | |
|---|---|---|
| | 2005 | 2004 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation | 406,251,500 | 406,251,500 |

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Furniture and fixture | Office and computer equipment | Motor vehicles | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **31 December 2005** | | | | |
| At 31 December 2004 and at 1 January 2005: | | | | |
| Cost | 2,656 | 4,714 | 428 | 7,798 |
| Accumulated depreciation | (901) | (1,040) | (343) | (2,284) |
| Net carrying amount | 1,755 | 3,674 | 85 | 5,514 |
| At 1 January 2005, net of accumulated depreciation | 1,755 | 3,674 | 85 | 5,514 |
| Additions | 799 | 774 | – | 1,573 |
| Depreciation provided during the year | (512) | (930) | (80) | (1,522) |
| Disposals | (1,128) | (999) | (5) | (2,132) |
| Disposal of a subsidiary | (791) | (2,514) | – | (3,305) |
| Exchange realignment | 32 | 74 | – | 106 |
| At 31 December 2005, net of accumulated depreciation | 155 | 79 | – | 234 |
| At 31 December 2005: | | | | |
| Cost | 290 | 250 | 414 | 954 |
| Accumulated depreciation | (135) | (171) | (414) | (720) |
| Net carrying amount | 155 | 79 | – | 234 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

**Group**

| | Furniture and fixture HK$'000 | Office and computer equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **31 December 2004** | | | | |
| At 31 December 2003 and at 1 January 2004: | | | | |
| Cost | 1,809 | 822 | 426 | 3,057 |
| Accumulated depreciation | (298) | (96) | (236) | (630) |
| Net carrying amount | 1,511 | 726 | 190 | 2,427 |
| At 1 January 2004, net of accumulated depreciation | 1,511 | 726 | 190 | 2,427 |
| Additions | 726 | 5,135 | – | 5,861 |
| Depreciation provided during the year | (621) | (986) | (107) | (1,714) |
| Disposals | (52) | (1,278) | – | (1,330) |
| Exchange realignment | 191 | 77 | 2 | 270 |
| At 31 December 2004, net of accumulated depreciation | 1,755 | 3,674 | 85 | 5,514 |
| At 31 December 2004: | | | | |
| Cost | 2,656 | 4,714 | 428 | 7,798 |
| Accumulated depreciation | (901) | (1,040) | (343) | (2,284) |
| Net carrying amount | 1,755 | 3,674 | 85 | 5,514 |

## 15. OTHER INTANGIBLE ASSETS

**Group and Company**

| | *HK$'000* |
|---|---|
| **31 December 2005:** | |
| Cost at 1 January 2005, net of accumulated amortisation | 14 |
| Amortisation provided during the year | (14) |
| Impairment during the year | – |
| At 31 December 2005 | – |
| At 31 December 2005: | |
| Cost | 17 |
| Accumulated amortisation | (17) |
| Net carrying amount | – |
| **31 December 2004:** | |
| At 1 January 2004: | |
| Cost | 17 |
| Accumulated amortisation | (1) |
| Net carrying amount | 16 |
| Cost at 1 January 2004, net of accumulated amortisation | 16 |
| Amortisation provided during the year | (2) |
| At 31 December 2004 | 14 |
| At 31 December 2004 and at 1 January 2005: | |
| Cost | 17 |
| Accumulated amortisation | (3) |
| Net carrying amount | 14 |

## 16. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 14,882 | 14,882 |
| Due from subsidiaries | 44,141 | 44,881 |
| Due to a subsidiary | (444) | (396) |
| | 58,579 | 59,367 |

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

| Name of subsidiary | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Ace Solution Technology Limited | British Virgin Islands | 10,200 ordinary shares of US$1 each | 100 | – | Investment holding |
| Gold Glory Development Limited | British Virgin Islands | 2,000 ordinary shares of US$1 each | – | 100 | Sales and marketing of mobile appliance solution and investment holding |
| Hanbit I & T (HK) Co., Limited | Hong Kong | 800,000 ordinary shares of HK$1 each | – | 100 | Sales and marketing of mobile appliance solution and relevant components |
| Qualfield Ltd. | British Virgin Islands | 100 ordinary shares of US$1 each | – | 100 | Provision of agency services and investment holding |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Quasar Communication Technology Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | – | 100 | Sales and marketing of mobile appliance solution |
| Quasar Korea * | South Korea | 60,000 ordinary shares of KRW 5,000 each | – | 100 | Development of software and solutions for mobile appliance |
| Synerex Inc. | British Virgin Islands | 10,200 ordinary shares of US$1 each | – | 100 | Investment holding |
| Zetta Global Limited | Hong Kong | 100 ordinary shares of HK$1 each | – | 100 | Provision of management services to group companies |
| Zetta Media Holdings Limited | British Virgin Islands | 100 ordinary shares of US$1 each | – | 100 | Investment holding |

* Disposal was completed on 19 October 2005

## 17. INVESTMENT IN SECURITIES

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | – | 9,142 |
| Impairment loss | – | (2,500) |
| | – | 6,642 |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 9,142 | – |
| Impairment loss | (5,500) | – |
| | 3,642 | – |

## 19. INVENTORIES

| | Group | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| Finished goods | 9,875 | 7,502 |

## 20. CONTRACT WORKS IN PROGRESS

| | Group | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| Contract costs for development of mobile phone solution | 31,000 | 31,600 |
| Less: Amount charged to income statement | (10,405) | – |
| | 20,595 | 31,600 |

## 21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **11,955** | 32,234 |
| 1 to 2 months | **15,099** | 7,309 |
| 2 to 3 months | **14,171** | 8,273 |
| Over 3 months | **5,262** | 1,552 |
| | **46,487** | 49,368 |

## 22. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **6,004** | 20,762 |
| 1 to 2 months | **839** | 15,251 |
| 2 to 3 months | **290** | 22,153 |
| Over 3 months | **677** | 13,459 |
| | **7,810** | 71,625 |

The trade payables are non-interest bearing and are normally settled on 60-day terms.

## 23. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

**Group**

| | Accelerated tax depreciation | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| At beginning of year | 175 | 171 |
| Deferred tax charged to the income statement during the year for discontinued operation | – | 4 |
| Disposal of a subsidiary during the year | (154) | – |
| Exchange differences | 3 | – |
| Gross deferred tax liabilities at balance sheet date | 24 | 175 |

### Deferred tax assets

**Group**

| | Losses available for offset against future taxable profit | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| At beginning of year and at balance sheet date | 246 | 246 |
| Net deferred tax assets at balance sheet date | 222 | 71 |

At 31 December 2005, the Group has unused tax losses of approximately HK$5,855,000 (2004: HK$8,788,000) available indefinitely for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$1,626,000 (2004: HK$1,626,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$4,229,000 (2004: HK$7,162,000) due to the unpredictability of future profit streams.

## 24. SHARE CAPITAL

| **Shares** | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK$0.01 each | **10,000** | 10,000 |
| Issued and fully paid: | | |
| 406,251,500 (2004: 406,251,500) ordinary shares of HK$0.01 each | **4,063** | 4,063 |

**Share options**

Details of the Company's share option scheme are included in note 25 to the financial statements.

## 25. 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 incentive 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, and any of its subsidiaries, to subscribe for shares in the Company.

The total number of share 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 share 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 them 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 he 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 grant must be approved in advance by the Company's shareholders.

## 25. SHARE OPTION SCHEME *(Continued)*

HK$1 shall be paid to the Company upon acceptance of the grant. 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.

No option had been granted or agreed to be granted by the Company under the Scheme during the year and as at the balance sheet dates.

## 26. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

### (b) Company

| | Special reserve | Share premium | Retained profits/ (Accumulated losses) | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As 1 January 2004 | 14,879 | 41,573 | 81 | 56,533 |
| Net loss for the year | – | – | (1,017) | (1,017) |
| At 31 December 2004 | 14,879 | 41,573 | (936) | 55,516 |
| Net loss for the year | – | – | (976) | (976) |
| At 31 December 2005 | 14,879 | 41,573 | (1,912) | 54,540 |

## 26. RESERVES *(Continued)*

### (b) Company *(Continued)*

*Notes:*

1. On 16 July 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company acquired the entire issued share capital of Ace Solution Technology Limited, the holding company of the group prior to the Reorganisation, through a share swap and became the holding company of Ace Solution Technology Limited and its subsidiaries.

   The special reserve of the Company represents the difference between the underlying net assets of the Ace Solution Technology Limited acquired by the Company as at the date of the Reorganisation, and the nominal amount of the Company's share capital issued as consideration for the acquisition.

2. Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the special reserve and 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 special reserve and 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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

| | 2005<br>HK$'000 | 2004<br>*HK$'000* |
|---|---|---|
| Special reserve | 14,879 | 14,879 |
| Share premium | 41,573 | 41,573 |
| Retained profits/(accumulated losses) | (1,912) | (936) |
| | 54,540 | 55,516 |

## 27. DISPOSAL OF A SUBSIDIARY

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Net liabilities disposed of: | | | |
| Property, plant and equipment | | 3,306 | – |
| Research and development | | 401 | – |
| Inventories | | 789 | – |
| Cash and bank balances | | 3,462 | – |
| Trade receivables | | 23,006 | – |
| Prepayments and other receivables | | 1,059 | – |
| Trade payables | | (24,238) | – |
| Accruals and other payables | | (8,843) | – |
| Tax payable | | – | – |
| Deferred tax liabilities | | (154) | – |
| | | (1,212) | – |
| Exchange reserve | | (398) | – |
| Gain on disposal of a subsidiary | 5 | 2,989 | – |
| | | 1,379 | – |
| Satisfied by: | | | |
| Cash | | – | – |
| Waiver of loan * | | 1,379 | – |
| | | 1,379 | – |

* *Such waiver of loan is one of the conditions to be fulfilled for the completion of the disposal of Quasar Korea.*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Cash consideration | – | – |
| Cash and bank balances disposed of | (3,462) | – |
| Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary | (3,462) | – |

## 28. CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities at the balance sheet dates.

The Company had the following contingent liabilities as at the balance sheet date:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Corporate guarantee given in respect of banking facilities extended to certain subsidiaries | 240,000 | 240,000 |
| Amount of facilities utilised by the subsidiaries | 84,059 | 23,486 |

## 29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 5 years

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | 2005 | 2004 |
| | *HK$'000* | *HK$'000* |
| Within one year | 535 | 1,034 |
| In the second to fifth years, inclusive | 377 | – |
| | 912 | 1,034 |

## 30. COMMITMENTS

At the balance sheet date, neither the Group nor the Company had any significant commitments.

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### *Cash flow interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's trust receipt loans with a floating interest rate.

### *Foreign currency risk*

The Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in US dollars and HK dollars.

### *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

*Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

## 33. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2006.

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy, as detailed in note 2.2 to the financial statements.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 *HK$'000* | 2004 *HK$'000* | 2003 *HK$'000* | 2002 *HK$'000* | 2001 *HK$'000* |
| REVENUE | | | | | |
| Continuing operations | | | | | |
| – External sales | 273,760 | 488,352 | 1,155,286 | 1,355,946 | 308,270 |
| – Intercompany sales | – | – | 27,534 | – | – |
| | 273,760 | 488,352 | 1,182,820 | 1,355,946 | 308,270 |
| Discontinued operation | | | | | |
| – External sales | 31,283 | 161,404 | 404 | – | – |
| – Intercompany sales | 451 | 212,419 | 347,310 | – | – |
| | 31,734 | 373,823 | 347,714 | – | – |
| | 305,494 | 862,175 | 1,530,534 | 1,355,946 | – |
| Elimination of intercompany sales | (451) | (212,419) | (374,844) | – | – |
| | 305,043 | 649,756 | 1,155,690 | 1,355,946 | 308,270 |
| Cost of sales | (280,175) | (621,704) | 1,107,218 | (1,331,831) | (299,265) |
| Gross profit | 24,868 | 28,052 | 48,472 | 24,115 | 9,005 |
| Gross profit attributable to discontinued operation | (5,997) | (18,515) | (22,809) | – | – |
| Gross profit attributable to continued operations | 18,871 | 9,537 | 25,663 | 24,115 | 9,005 |
| Other income and gains | 4,481 | 58 | 142 | 16,152 | 11 |
| Research and development costs | (168) | – | – | – | (1,085) |
| Depreciation of property, plant and equipment | (203) | (93) | (208) | (139) | (44) |
| Staff costs | (5,008) | (7,651) | – | (2,477) | (5,901) |
| Other expenses | (6,991) | (3,927) | (8,330) | (8,495) | – |
| Impairment loss on investment in securities | – | (2,500) | (10,994) | – | – |
| Impairment loss on available-for-sale investments | (3,000) | – | – | – | – |
| Finance costs | (906) | (591) | (81) | – | – |
| PROFIT/(LOSS) BEFORE TAXATION | 7,076 | (5,167) | 6,192 | 29,156 | 1,986 |
| Taxation | (638) | (812) | (740) | (1,600) | – |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | 6,438 | (5,979) | 5,452 | 27,556 | 1,986 |
| LOSS FROM DISCONTINUED OPERATION | (711) | (2,862) | 3,078 | (2,077) | – |
| | 5,727 | (8,841) | 8,530 | 25,479 | 1,986 |
| **ASSETS AND LIABILITIES** | | | | | |
| TOTAL ASSETS | 159,791 | 172,728 | 195,294 | 222,654 | 66,733 |
| TOTAL LIABILITIES | (83,271) | (101,527) | (115,567) | (147,404) | (61,749) |
| | 76,520 | 71,201 | 79,727 | 75,250 | 4,984 |

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that an annual general meeting of QUASAR Communication Technology Holdings Limited (the "**Company**") will be held at 11:00 a.m. on Tuesday, 27 June 2006 at 12th Floor, Crocodile House 1, 50 Connaught Road Central Hong Kong to transact the following ordinary business:

1. to receive and consider the audited combined financial statements of the Company and its subsidiaries and the reports of the directors (the "**Directors**") and auditors for the year ended 31 December 2005;

2. to re-elect the retiring Director and to authorise the board of Directors to fix the Directors' remuneration;

3. to re-appoint auditors and to authorise the board of Directors to fix their remuneration;

4. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as a special resolution:

   "**THAT**:

   (a) subject to paragraph (c) below, pursuant to the Rules (the "**GEM Listing Rules**") Governing the Listing of Securities on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued Shares and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of 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, the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**") or any other applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

"**Rights Issue**" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

5. to consider as special business and, if thought fit, passing the following resolutions as ordinary resolutions:

"(a) the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the Companies Law and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purposes of this resolution, "**Relevant Period**" means the period from the date of 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, the Companies Law or any other applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this resolution."

6. "**THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

By order of the Board
**QUASAR Communication Technology Holdings Limited**
**Chan Ka Wo**
*Chairman*

Hong Kong, 30 March 2006

*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 in Hong Kong:*
12th Floor
Crocodile House 1
50 Connaught Road Central
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Articles, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the annual general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the annual general meeting will be sent to the shareholders before annual general meeting. Such form of proxy will also be published on the GEM website at www.hkgem.com. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the branch share registrar of the Company in Hong Kong, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the annual general meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the annual general meeting or any adjournment thereof, should he so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the annual general meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the annual general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

4. In relation to proposed resolution no. 2 above, Mr. Ra Chang Ju will retire from his office by rotation at the annual general meeting pursuant to Article 87(1) and Mr. Choy Mun Kei will retire from his office at the annual general meeting pursuant to Article 86(3) and being eligible, will offer themselves for re-election at the annual general meeting.

5. The Articles are written in English. There is no official Chinese translation in respect thereof. Therefore, the Chinese version of proposed resolution no. 4 above on amendments of the Articles is purely a translation only. Should there be any discrepancy, the English version shall prevail.

6. In relation to proposed resolutions nos. 5 and 7 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the GEM Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders.

7. In relation to proposed resolution no. 6 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the GEM Listing Rules is set out in the accompanying document.