

QUASAR

COMMUNICATION TECHNOLOGY

QUASAR Communication Technology Holdings Limited

1st Quarterly Report 2004

Quasar

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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.

HIGHLIGHTS

- Reported a turnover of approximately HK\$217,423,000 for the quarter
- Achieved a net profit after tax of approximately HK\$1,010,000 and a basic earnings per share of HK\$0.0025 during the period

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

The unaudited consolidated results of QUASAR Communication Technology Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) for the three months ended 31 March 2004 (the “Quarterly Period”), together with the unaudited comparative figures for the corresponding period in 2003 were as follows:

	<i>Notes</i>	Three months ended	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	217,423	509,216
Contract costs		(206,408)	(498,175)
		11,015	11,041
Other revenues	2	11	89
Other operating expenses		(9,923)	(7,011)
Operating profit		1,103	4,119
Finance costs		(93)	–
Profit before taxation		1,010	4,119
Taxation	3	–	(524)
Profit for the period		<u>1,010</u>	<u>3,595</u>
Earnings per share			
– Basic (HK cents)	4	<u>0.25</u>	<u>0.88</u>

Notes:

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 4 April 2002, as an exempted company with limited liability, under the Companies Law of the Cayman Islands. The unaudited results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

2. Revenues and turnover

The principal activity of the Group is the provision of cellular phone solutions services. Revenues recognised during the Quarterly Period, together with the comparative figures for the corresponding period in 2003 were as follows:

	Three months ended	
	31 March	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Revenue from cost plus contracts	217,423	507,087
Technical consultancy income	-	2,129
	<u>217,423</u>	<u>509,216</u>
Other revenues		
Interest income	6	30
Others	5	59
	<u>11</u>	<u>89</u>
Total revenues	<u>217,434</u>	<u>509,305</u>

3. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the three months ended 31 March 2003 and 2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the country in which the subsidiary operates.

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

	Three months ended	
	31 March	
	2004	2003
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong Profits Tax	<u>–</u>	<u>524</u>

4. Earnings per share

The calculation of basic earnings per share for the Quarterly Period is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$1,010,000 and the weighted average number of 406,251,500 shares. The basic earnings per share for the corresponding quarterly period in 2003 is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$3,595,000 and the weighted average number of 406,251,500 shares.

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

5. Reserves

	Share premium	Capital reserves	Exchange reserves	Proposed final dividends	Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2003	41,573	11,157	83	4,063	14,311	71,187
Exchange difference on translation of overseas operations	–	–	55	–	–	55
Profit for the period	–	–	–	–	3,595	3,595
As at 31 March 2003	<u>41,573</u>	<u>11,157</u>	<u>138</u>	<u>4,063</u>	<u>17,906</u>	<u>74,837</u>
As at 1 January 2004	41,573	11,157	93	–	22,841	75,664
Exchange difference on translation of overseas operations	–	–	51	–	–	51
Profit for the period	–	–	–	–	1,010	1,010
As at 31 March 2004	<u>41,573</u>	<u>11,157</u>	<u>144</u>	<u>–</u>	<u>23,851</u>	<u>76,725</u>

INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Quarterly Period. The Group has not declared any dividends for the corresponding quarterly period in 2003.

BUSINESS REVIEW AND OUTLOOK

The intense competition and continuous consolidation in the telecommunication industry in the People's Republic of China (the "PRC") exerted tremendous pressure on Quasar. The turnover of the Group for the period under review dropped from approximately HK\$509,216,000 to HK\$217,423,000, representing 57.3% decrease as compared to 2003. Despite the unfavourable environment, our strategic focus on the provision of advanced technology for high-end products and delivery of total solutions to customers have lifted up our gross solution margin from 2.17% to 5.07%, demonstrating our strength in product solution development and sustaining Quasar to bring a positive return to our shareholders. The net profit after tax for the 3 months reported was approximately HK\$1,010,000, a drop of 71.9% from HK\$3,595,000 in last year. Earnings per share was HK0.25 cents (2003: HK0.88 cents).

During the quarter, Quasar experienced a harder time than we have had in the past few years. There were fierce competition in terms of product mix and selling price, fighting amongst local prolonged manufacturers, retailers and new entrances. Although general end-users benefited from such list of choice of mobile phone products, ranged from low-end monochrome to dual coloured handsets and at respective price level affordable by different population group, it had at the same time created a difficult business environment for all participants to implement appropriate and effective operational tactic regarding their product launch and marketing under the rapid market instabilities. Quasar, as a solution provider in supporting our customers in the PRC, was undoubtedly affected by such turmoil.

Nevertheless, Quasar is always optimistic in our performance, leveraging on the Group's cutting-edge technology and adaptation to business changes. To firm-hold our position and sustain our profitability, we continued to put our concentration in the delivery of advance cellular phone solutions through different channels to penetrate into the market. In addition, we performed review of our operational efficiency to study the possibility of streamlining. The management believed that such action would further improve our workflow and save our overheads in coming quarters to enhance our competitiveness.

The development and product launch of our SMART phone solution were right on schedule. The prototype was finished and the final product is expected to be ready in the market in 1st half 2004, incorporated with differentiating features including MMS ("Multimedia Message Service") function, mega pixel camera and camcorder, Mpeg4 video built on Linux platform and with a slim outlook design. We are confident that the solution to be trendy and user-friendly, and gives synergy to our customers of their product mix profile in coming years.

As a fulfillment of our promise, the staff member in our Shenzhen office commenced their operation early this year in the area of after-sales services and technical support, and conducted liaisons with potential customers in surrounding provinces, affirming our footstep to a greater extent in the sales and marketing of the Group's product solutions in our principal market. We also set up a team of solution testing in the office as our early establishment of the solutions development team in accordance with our implementation plan. We anticipated the return from these investments to the Group is promising.

2003 has passed with difficulties and the year ahead is believed to be even more challenging. The fast changing product technology and customers' consumption behaviour, the keen competition resulting from market disorder, as well as the recent macro-economic adjustments all give rise to uncertainties to the telecom participants. To prepare and tackle, the management of Quasar maintains our utmost attention to the market and keeps the Group capable of giving swift responses to any changes, and will actively identify business opportunities and determine the strategy to gain further presence in our principal and other emerging markets so as to improve the profitability, and more importantly, our shareholders' wealth.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 31 March 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required as recorded in the register required to be kept under section 352 of the SFO or as notified to the Company were as follows:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of director	Number of shares	Type of interest and capacity	Approximate percentage of interests
Ra Chang Ju	14,338,235	Corporate interest <i>(through holding the entire issued shares of and in Digit Success Investments Limited)</i>	3.53%
Jo Won Seob	32,500,000	Corporate interest <i>(through holding the entire issued shares of and in Brilliant Trade Developments Limited)</i>	8.00%
Park Seung Rae	32,500,000	Corporate interest <i>(through holding the entire issued shares of and in Prime Media Consultants Limited)</i>	8.00%
Kim Kwang Hoe	15,931,373	Corporate interest <i>(through holding the entire issued shares of and in People Talent Assets Limited)</i>	3.92%
Ong Se Mon	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>

Note:

1. These shares are registered in the name of i.Concept Inc. (“i.Concept”) and i.Concept is an indirect wholly owned subsidiary of PINE Technology Holdings Limited (“PINE Technology”) and Ong Se Mon is beneficially interested in 6,766,000 shares of PINE Technology which represents approximately 0.99% of the issued share capital of PINE Technology.

Save as disclosed above, at no time during the Quarterly Period, the directors and chief executives (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS

So far as was known to any director or chief executive of the Company, as at 31 March 2004, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders’ interests and short positions, being 10% or more of the Company’s issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Number of shares	Approximate percentage of interests
Choice Media Investments Limited (“Choice Media”)	148,121,186	36.46%
Chan Ka Wo (<i>Note 1</i>)	148,121,186	36.46%
i.Concept	41,740,196	10.27%
Pan Eagle Limited (<i>Note 2</i>)	41,740,196	10.27%
Pine Technology (BVI) Limited (<i>Note 2</i>)	41,740,196	10.27%
PINE Technology (<i>Note 2</i>)	41,740,196	10.27%
Shenyin Wanguo Strategic Investments (H.K.) Limited	20,000,000	4.923%
Shenyin Wanguo Trading (H.K.) Limited	21,628,000	5.324%
Shenyin Wanguo (H.K.) Limited (<i>Note 3</i>)	41,628,000	10.25%

Short positions in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Number of shares	Approximate percentage of interests
i.Concept	20,312,575	5.00%
Pan Eagle Limited (<i>Note 2</i>)	20,312,575	5.00%
Pine Technology (BVI) Limited (<i>Note 2</i>)	20,312,575	5.00%
PINE Technology (<i>Note 2</i>)	20,312,575	5.00%

Notes:

1. These shares are registered in the name of Choice Media. Chan Ka Wo legally and beneficially owns the entire share capital of Choice Media. Accordingly, Chan Ka Wo is deemed to be interested in all the share registered in the name of Choice Media.
2. The entire issued share capital of i.Concept is legally and beneficially owned by Pan Eagle Limited and the entire issued share capital of Pan Eagle Limited is legally and beneficially owned by Pine Technology (BVI) Limited. The entire issued share capital of Pine Technology (BVI) Limited is, in turn, legally and beneficially owned by PINE Technology. Accordingly, each of Pan Eagle Limited, Pine Technology (BVI) Limited and PINE Technology is deemed to be interested in all the shares registered in the name of i.Concept.
3. The entire issued share capital of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Limited are legally and beneficially owned by Shenyin Wanguo (H.K.) Limited. Accordingly, Shenyin Wanguo (H.K.) Limited is deemed to be interested in all the shares registered in the name of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Limited.

DISCLOSURE OF TRADING BALANCE ARISING FROM SALES TRANSACTIONS CONDUCTED BY THE GROUP IN ITS ORDINARY COURSE OF BUSINESS

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

As at 31 March 2004, Ningbo Bird Co. Ltd., a customer of the Group and a third party independent to any of the directors, the chief executives, the substantial shareholders (within the meaning of the GEM Listing Rules) of the Company, the management shareholders (within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules), had trading balance with the Group of approximately HK\$74,922,000, representing approximately 38.36% of the total assets of the Group of approximately HK\$195,294,000 as at 31 December 2003.

The aggregate trading balance was resulted from sales by the Group in its ordinary course of business and on normal commercial terms, and was unsecured and repayable in accordance with the credit terms as agreed with the relevant customer. The Group normally grants 30 days credit to the customer. No collateral is required to be made by the customer and no interest was charged on the trading balance.

COMPETING INTERESTS

None of the directors or the initial management shareholders of the Company or their respective associates as defined in the GEM Listing Rules had any interest in business that competed or might compete with business of the Group.

SHARE OPTION SCHEME

As at 31 March 2004, no option has been granted or agreed to be granted by the Company under the share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

SPONSOR'S INTERESTS

As at 31 March 2004, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), was interested in 20,000,000 shares of the Company. In addition, Shenyin Wanguo Trading (H.K.) Limited, an affiliated company of the Sponsor was interested in 21,628,000 shares as at 31 March 2004. Save as disclosed herein, none of the Sponsor, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 25 July 2002 entered into between the Company and the Sponsor, the Sponsor will receive sponsorship fees for acting as the Company's retained sponsor until 31 December 2004. With effect from 15 April 2004, Shenyin Wanguo Capital (H.K.) Limited resigned as the Sponsor and the Company is looking for a replacement sponsor with its best endeavours in order to ensure the appointment is completed within 3 months from 15 April 2004 in accordance with Rule 6.63 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The Committee has two members comprising the two independent non-executive directors, Lee Kin Keung and Lo Hang Fong.

The Committee has already reviewed the Group's unaudited quarterly results for the three months ended 31 March 2004.

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

Hong Kong, 14 May 2004