

QUASAR

COMMUNICATION TECHNOLOGY

Quasar

QUASAR Communication Technology Holdings Limited

Interim Report 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

This report, for which the directors of QUASAR Communication Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to QUASAR Communication Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Reported a turnover of approximately HK\$159,231,000 for the Quarterly Period.
- Achieved a net profit after tax of approximately HK\$2,107,000 and a basic earnings per share of HK0.52 cents for the Quarterly 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 six months (the “Half-Yearly Period”) and the three months (the “Quarterly Period”) ended 30 June 2004, together with the unaudited comparative figures for the corresponding periods in 2003 were as follows:

	Notes	Six months ended		Three months ended	
		30 June		30 June	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	376,654	708,678	159,231	199,462
Contract costs		(353,710)	(689,114)	(147,302)	(190,939)
		22,944	19,564	11,929	8,523
Other revenues	2	59	382	48	293
Other operating expenses		(19,581)	(13,419)	(9,658)	(6,408)
Operating profit	4	3,422	6,527	2,319	2,408
Finance costs		(283)	–	(190)	–
Profit before taxation		3,139	6,527	2,129	2,408
Taxation	5	(22)	(930)	(22)	(406)
Profit for the period		3,117	5,597	2,107	2,002
Earnings per share					
– Basic (HK cents)	6	0.77	1.38	0.52	0.49

CONDENSED CONSOLIDATED BALANCE SHEET

The unaudited consolidated balance sheet as at 30 June 2004, together with the audited balance sheet as at 31 December 2003 were as follows:

	<i>Notes</i>	Unaudited 30 June 2004	Audited 31 December 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets		4,909	2,427
Investment securities		9,142	9,142
Intangible assets		16	16
Deferred taxation		296	246
		<u>14,363</u>	<u>11,831</u>
Current assets			
Inventories	7	51,041	15,270
Trade receivables	8	84,214	85,017
Deposits, prepayments and other receivables		15,176	14,728
Cash and bank balances		41,240	68,448
		<u>191,671</u>	<u>183,463</u>
Current liabilities			
Trade payables	9	92,149	108,286
Trust receipts and import loans		24,630	–
Other payables and accruals		3,611	4,480
Taxation payable		2,615	2,630
		<u>123,005</u>	<u>115,396</u>
Net current assets		<u>68,666</u>	<u>68,067</u>
Total assets less current liabilities		<u>83,029</u>	<u>79,898</u>
Financed by:			
Share Capital		4,063	4,063
Reserves		78,825	75,664
Shareholders' funds		82,888	79,727
Deferred tax liabilities		141	171
		<u>83,029</u>	<u>79,898</u>

CONDENSED CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY

The unaudited consolidated statement of movement in equity for the Half-Yearly Period, together with the unaudited comparative figures for the corresponding period in 2003 were as follows:

	Share premium	Capital reserves	Exchange reserves	Retained earnings	Total
	<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					
before proposed final dividends, as previously reported	41,573	11,157	83	18,327	71,140
Effect of adoption of revised SSAP 12	—	—	—	47	47
	<u>41,573</u>	<u>11,157</u>	<u>83</u>	<u>18,374</u>	<u>71,187</u>
Exchange difference arising on translation of overseas operations	—	—	17	—	17
2002 final dividends paid	—	—	—	(4,063)	(4,063)
Profit for the period	—	—	—	5,597	5,597
	<u>41,573</u>	<u>11,157</u>	<u>100</u>	<u>19,908</u>	<u>72,738</u>
As at 30 June 2003					
As at 1 January 2004	41,573	11,157	93	22,841	75,664
Exchange difference arising on translation of overseas operations	—	—	44	—	44
Profit for the period	—	—	—	3,117	3,117
	<u>41,573</u>	<u>11,157</u>	<u>137</u>	<u>25,958</u>	<u>78,825</u>
As at 30 June 2004					

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

The unaudited consolidated cash flow statement for the Half-Yearly Period, together with the unaudited comparative figures for the corresponding period in 2003 were as follows:

	Six months ended 30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in/generated from operating activities	(48,659)	7,338
Net cash used in investing activities	(3,193)	(266)
Net cash generated from/used in financing activities	24,347	(4,063)
Net (decrease)/increase in cash and cash equivalents	(27,505)	3,009
Cash and cash equivalents at 1 January	68,448	38,911
Effect of foreign exchange rate changes	297	(3)
Cash and cash equivalents at 30 June	<u>41,240</u>	<u>41,917</u>
Analysis of cash and cash equivalents:		
Cash and bank balances	<u>41,240</u>	<u>41,917</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 interim accounts have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies and method of computation used in the preparation of interim accounts are consistent with those used in the annual accounts of the Company for the year ended 31 December 2003.

2. Revenues and turnover

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

	Six months ended		Three months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Revenue from cost plus contracts	375,977	705,435	158,554	198,348
Technical consultancy income	677	3,243	677	1,114
	<u>376,654</u>	<u>708,678</u>	<u>159,231</u>	<u>199,462</u>
Other revenues				
Interest income	14	55	8	25
Others	45	327	40	268
	<u>59</u>	<u>382</u>	<u>48</u>	<u>293</u>
Total revenues	<u>376,713</u>	<u>709,060</u>	<u>159,279</u>	<u>199,755</u>

3. Segmental information

Over 90% of the Group's turnover and contribution to operating profit are attributable to the provision of cellular phone solutions, accordingly no analysis of business segment is presented.

No geographical segments analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

4. Operating profit

The operating profit is stated after charging the following:

	Six months ended		Three months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	353,710	689,114	147,302	190,939
Auditors' remuneration	225	225	113	113
Operating lease rental in respect of				
land and buildings	759	753	377	368
Depreciation	728	162	305	93
Staff costs, including directors' emoluments				
– salaries, allowance and welfare	13,208	6,532	6,781	3,169
– retirement benefits costs	153	90	67	37
	13,361	6,622	6,848	3,206

5. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the six months ended 30 June 2003 and 2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods 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:-

	Six months ended		Three months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
– Hong Kong Profits Tax	104	930	104	406
Deferred taxation relating to the origination and reversal of temporary differences	(82)	–	(82)	–
Taxation charges	<u>22</u>	<u>930</u>	<u>22</u>	<u>406</u>

6. Earnings per share

The calculation of basic earnings per share for the Half-Yearly Period and the Quarterly Period are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$3,117,000 and HK\$2,107,000 respectively, and the weighted average number of 406,251,500 shares. The basic earnings per share for the corresponding half-yearly period and quarterly period in 2003 are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$5,597,000 and HK\$2,002,000 respectively, 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.

7. Inventories

	30 June 2004	31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	32,277	144
Contract work in progress	<u>18,764</u>	<u>15,126</u>
	<u>51,041</u>	<u>15,270</u>

8. Trade receivables

Customers are generally granted with credit terms of 30 to 60 days. The ageing analysis of the trade receivables as at 30 June 2004 and 31 December 2003 were as follows:

	30 June 2004	31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	31,070	78,590
1 – 30 days	35,847	4,607
31 – 60 days	10,050	333
Over 60 days	<u>7,247</u>	<u>1,487</u>
	<u>84,214</u>	<u>85,017</u>

9. Trade payables

The ageing analysis of the trade payables as at 30 June 2004 and 31 December 2003 were as follows:

	30 June 2004	31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	39,090	81,724
1 – 30 days	37,136	26,033
31 – 60 days	15,028	501
Over 60 days	895	28
	<u>92,149</u>	<u>108,286</u>

10. Commitments under operating leases

As at 30 June 2004 and 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30 June 2004	31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than 1 year	785	1,452
Later than 1 year and not later than 5 years	165	345
	<u>950</u>	<u>1,797</u>

INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Half-Yearly Period and the Quarterly Period.

The Group has not declared any dividends for the corresponding half-yearly period and quarterly period in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Operational Review

The turnover of the Group for the six months decreased from HK\$708,678,000 in 2003 to HK\$376,654,000, a drop of approximately 47%. In the second quarter of 2004, Quasar strived to achieved a net profit after tax of approximately HK\$2,107,000, a slight increase of 5% compared with HK\$2,002,000 same quarter in last year. For the 6 months ended 30 June 2004, the Group generated a positive return to shareholders of approximately HK\$3,117,000, a drop of 44% against HK\$5,597,000 in 2003. Earnings per share decreased from HK1.38 cents to HK0.77 cents.

Quasar continued to enjoy a high solution margin through the delivery of total cellular phone solutions as well as the provision of after-sale services to customers. We have completed the Group's expansion and recorded a reasonable level of monthly expenditures during the first six months. Nevertheless, as already blue-printed in our action plan early this year, the management see the possibility of more efficiency in the workflow and are under progress of streamlining our overheads, including staff and operational costs. We expect the effect shall be reflected in next quarter and meaningful in terms of profitability for 2004 and the years ahead.

This year, the development of the mobile phone industry is described to be back on track, but yet was much disrupted by the changing consumer behaviour, uncertainty of macro-economic adjustments and the gaining popularity of the wireless local access services launched in different provinces. Quasar remained our focus in delivering high-end product solutions, comprising the industrial and mechanical design, to differentiate other players. Our early insight in stepping into this sector proved to be successful in building up our own clientele during the past years. Throughout the time, the Group worked closely with these partners to formulate their product rollout schedule and enjoyed the fruitful results. We anticipate such business strategy still to be promising and perceive our product solutions, especially the coming SMART phone solution which shall be ready for launch shortly, to be recognized in the market.

Meanwhile, Quasar captured the market niche and already started to deliver low-end mobile phone solutions with a high profit margin. While the revenue contribution is not significant at the moment, we believe that the business allows Quasar to solidify our profitability, and more importantly, to further reinforce our quality services to existing clients to maintain our enduring relationship, and build up a full-ranged product solution portfolio to seek new customer in the market.

While Quasar always provides our business partners and the market with the most advanced solutions, we are scrupulous in our technology development in order to match the market demand, product acceptance and gain the maximum economic benefits. The management decided to hold up the product launch of video telephony and re-schedule the development processes, including the technical viability assessment, specification definition and software development to a later stage with a target to enable the product to be compliant with 3G standard when such technology is foreseen to become mature in 2005.

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 1.56 (2003: 2.07), and total cash balances amounted to approximately HK\$41,240,000 (2003: HK\$41,917,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 30 June 2004, the gearing ratio based on total liabilities over total assets was approximately 60% (2003: 45%).

Capital Structure and Fluctuation in Exchange

During the period under review, the sales and purchases of the Group were mainly transacted in US dollars and Hong Kong dollars. As at 30 June 2003 and 2004, substantial portion of the assets and liabilities of the Group were current in nature, and the amounts were principally denominated in US dollars, Hong Kong dollars and Korean Won. The Group did not employ any hedging instruments as the Directors considered the Group does not have significant foreign exchange risk exposure in view of its currency transaction mechanism.

Employees

As at 30 June 2004, there are a total of 73 (2003: 38) full-time staff employed by the Group. The staff costs, including directors' remuneration, for the 6 months were approximately HK\$13,361,000 (2003: HK\$6,622,000). The total amount comprised salaries, wages and allowance, medical and insurance coverage, pension fund scheme and discretionary bonus. The increase of about 102% compared with last year was principally attributable to the recruitment of more human resources in our Korean office.

Significant Investments and Material Acquisitions

During the period under review, the Group did not have any significant investment or material acquisitions, and maintained its 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 and the Group has about 8% equity interest.

Contingent Liabilities

There were guarantees given to banks by the Company in respect of banking facilities available to certain wholly owned subsidiaries. As at 30 June 2004, the Group had commitment under operating lease amounting to approximately HK\$950,000 and there was no charges on any assets of the Group.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Summary of the actual progress of the Group compared with the business objectives set out in the prospectus of the Company for the period from 1 January 2004 to 30 June 2004.

Cellular phone solutions development

Video Telephony

- Business objectives:* Commercial launch of 1st generation.
- Actual progress:* The basic technique of the solution including motion picture control and the data transmission speed was completed. The management decided to delay the market launch and targeted to enable the product solution to be 3G compliant.
- Business objectives:* Complete the technical viability assessment and specification definition for 2nd generation.
- Actual progress:* The development for the 2nd generation was postponed in order to enable the solution performed under the 3G standard.

SMART phones

- Business objectives:* Complete the prototype formulation and specification definition.
- Actual progress:* The solution development was completed and the commercial launch of the SMART phone is expected to be conducted in 2nd half 2004.

Others

- Business objectives:* Installation of management information system
- Actual progress:* The enhancement of management information system was completed in the 1st half of 2004, principally carried out in our office in Korea.

USE OF PROCEEDS

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

	As stated in prospectus up to 30 June 2004 <i>HK\$'000</i>	Actual amount used up to 30 June 2004 <i>HK\$'000</i>
Cellular phone solution development	19,266	12,963
Other solution development	9,828	7,800
Sales & marketing capabilities	644	978
Technical support capabilities	4,600	6,256
Others	4,400	9,525
	<u>38,738</u>	<u>37,522</u>

The total investments for the implementation of the business objectives were principally financed by the net proceeds from the placing of shares, and the rest through the Group's internal resources. The total costs incurred up to 30 June 2004 were approximately HK\$37,522,000 that included about HK\$7,436,000 being financed by internal generated fund. As at 30 June 2004, the balance of the unused proceeds which are not immediately applied were placed as deposits with financial institutions in Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 June 2004, the interests and short positions of the directors and chief executive 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	Number of shares	Capacity	Type of interests	Approximate percentage of interests
Jo Won Seob	32,500,000	Interest of a controlled corporation <i>(through his holding of the entire issued shares of and in Brilliant Trade Developments Limited)</i>	Corporate	8.00%
Kim Kwang Hoe	15,931,373	Interest of a controlled corporation <i>(through his holding of the entire issued shares of and in People Talent Assets Limited)</i>	Corporate	3.92%
Ra Chang Ju	14,338,235	Interest of a controlled corporation <i>(through his holding of the entire issued shares of and in Digit Success Investments Limited)</i>	Corporate	3.53%
Ong Se Mon	50,000,000 <i>(Note 1)</i>	Interest of a controlled corporation <i>(through his holding of the entire issued shares of and in Pilot Choice Management Limited)</i>	Corporate and other <i>(Note 2)</i>	12.31% <i>(Note 1)</i>

Note:

1. These shares are registered in the name of Pilot Choice Management Limited ("Pilot Choice"). Ong Se Mon legally and beneficially owns the entire issued share capital of Pilot Choice. Accordingly, Ong Se Mon is deemed to be interested in all the shares registered in the name of Pilot Choice.
2. Except for interest disclosed in Note 1, 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"). Ong Se Mon is beneficially interested in approximately 0.97% of the issued share capital of PINE Technology.

Save as disclosed above, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company, or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or any body corporate, or had exercised any such right as at 30 June 2004.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any director or chief executive of the Company, as at 30 June 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 executive.

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

Name of shareholders	Number of shares	Approximate percentage of interests
Choice Media Investments Limited ("Choice Media")	109,621,186	26.99%
Chan Ka Wo (<i>Note 1</i>)	109,621,186	26.99%
i.Concept	41,740,196	10.27%
Pan Eagle Limited	41,740,196	10.27%
Pine Technology (BVI) Limited	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 shareholders	Number of shares	Approximate percentage of interests
Choice Media (<i>Note 4</i>)	35,000,000	8.62%
Chan Ka Wo (<i>Note 4</i>)	35,000,000	8.62%
i.Concept	20,312,575	5.00%
Pan Eagle Limited	20,312,575	5.00%
Pine Technology (BVI) Limited	20,312,575	5.00%
PINE Technology	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.
4. Pursuant to a sale and purchase agreement entered into between Choice Media and Pilot Choice, Choice Media has agreed to sell and Pilot Choice has agreed to purchase an aggregate of 50,000,000 shares of the Company. The completion of the sale and purchase takes place in 3 tranches with 15,000,000 shares, 17,500,000 shares and 17,500,000 shares to be delivered on 28 June 2004, 28 July 2004 and 28 August 2004 respectively.

COMPETING INTERESTS

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

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 30 June 2004, Ningbo Bird Co. Ltd., a customer of the Group and a third party independent to any of the directors, the chief executive, the substantial shareholders, 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\$40,530,000, representing approximately 20.75% 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 was required to be made by the customer and no interest was charged on the trading balance.

BOARD PRACTICES AND PROCEDURES

The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

SHARE OPTION SCHEME

As at 30 June 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 Half-Yearly Period.

SPONSOR'S INTERESTS

Shenyin Wanguo Capital (H.K.) Limited resigned as the sponsor of the Company with effect from 15 April 2004 and Hantec Capital Limited ("Hantec") was appointed as the replacement sponsor of the Company with effect from 12 July 2004 to 31 December 2004, being the remaining balance of the minimum period as required under Rule 6.01 of the GEM Listing Rules. As at 30 June 2004 and 11 August 2004, Hantec did not have any interest in the shares of the Company.

Pursuant to the agreement dated 12 July 2004 entered into between the Company and Hantec, Hantec will receive usual sponsorship fees for acting as the Company's sponsor for the remainder of the financial year of the Company ending 31 December 2004.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.28 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 interim accounts for the six months ended 30 June 2004.

DIRECTORS

Executive directors of the Company as at the date of this report are Mr Ra Chang Ju, Mr Park Seung Rae, Mr Kim Kwang Hoe and Mr Ong Se Mon and the Independent non-executive directors of the Company as at the date of this report are Mr Lee Kin Keung and Mr Lo Hang Fong.

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

Hong Kong, 13 August 2004