



COMMUNICATION TECHNOLOGY

QUASAR
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QUASAR Communication Technology Holdings Limited

3rd Quarterly Report 2004

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This document, 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 document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Report a turnover of approximately HK\$129,989,000 for the Quarterly Period
- Achieved a net profit after tax of approximately HK\$1,017,000 and a basic earnings per share of HK0.25 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 nine months (the “Nine-Month Period”) and the three months (the “Quarterly Period”) ended 30 September 2004, together with the unaudited comparative figures for the corresponding periods in 2003 were as follows:

	<i>Notes</i>	Nine months ended		Three months ended	
		30 September		30 September	
		2004	2003	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	506,642	916,772	129,989	208,094
Contract costs		(473,627)	(882,900)	(119,917)	(193,786)
		33,015	33,872	10,072	14,308
Other revenues	2	207	632	148	250
Other operating expenses		(28,577)	(22,469)	(8,996)	(9,050)
Operating profit		4,645	12,035	1,224	5,508
Finance costs		(473)	–	(191)	–
Profit before taxation		4,172	12,035	1,033	5,508
Taxation	3	(38)	(1,996)	(16)	(1,066)
Profit for the period		4,134	10,039	1,017	4,442
Earnings per share					
– Basic (HK cents)	4	1.02	2.47	0.25	1.09

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 Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public 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 Nine-Month Period and the Quarterly Period, together with the comparative figures for the corresponding periods in 2003 were as follows:

	Nine months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Revenue from cost plus contracts	505,965	913,482	129,989	208,047
Technical consultancy income	677	3,290	–	47
	506,642	916,772	129,989	313,298
Other revenues				
Interest income	25	77	11	22
Others	182	555	137	228
	207	632	148	250
Total revenues	506,849	917,404	130,137	208,344

3. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the Nine months ended 30 September 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:-

	Nine months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
– Hong Kong Profits Tax	120	758	16	(172)
– Overseas taxation	–	1,238	–	1,238
Deferred taxation relating to the origination and reversal of temporary differences	(82)	–	–	–
Taxation charges	38	1,996	16	1,066

4. Earnings per share

The calculation of basic earnings per share for the Nine-Month Period and the Quarterly Period are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$4,134,000 and HK\$1,017,000 respectively, and the weighted average number of 406,251,500 shares. The basic earnings per share for the corresponding Nine-Month period and quarterly period in 2003 are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$10,039,000 and HK\$4,442,000 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.

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						
As previously reported	41,573	11,157	83	4,063	14,264	71,140
Effect of deferred tax	–	–	–	–	47	47
	41,573	11,157	83	4,063	14,311	71,187
Exchange difference on translation of overseas operations	–	–	(25)	–	–	(25)
Final dividends paid	–	–	–	(4,063)	–	(4,063)
Profit for the period	–	–	–	–	10,039	10,039
As at 30 September 2003	<u>41,573</u>	<u>11,157</u>	<u>58</u>	<u>–</u>	<u>24,350</u>	<u>77,138</u>
As at 1 January 2004						
As previously reported	41,573	11,157	93	–	22,841	75,664
Exchange difference on translation of overseas operations	–	–	81	–	–	81
Profit for the period	–	–	–	–	4,134	4,134
As at 30 September 2004	<u>41,573</u>	<u>11,157</u>	<u>174</u>	<u>–</u>	<u>26,975</u>	<u>79,879</u>

INTERIM DIVIDENDS

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

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

CHAIRMAN STATEMENT

Business Review and Outlook

The turnover of the Group for the nine months decreased from HK\$916,772,000 in 2003 to HK\$506,643,000, a drop of approximately 45%. In the third quarter of 2004, profit of the Group was approximately HK\$1,017,000 representing a decrease of approximately 75% compared with HK\$4,442,000 same quarter in last year. For the nine months ended 30 September 2004, the profit for the Group was approximately HK\$4,134,000 that represents a drop of 59% against HK\$10,039,000 in 2003. Slow seasonality and certain macro economic adjustments in the telecommunications industry in the PRC has led to a drop in turnover and profit for the quarter.

Though there has been intense competition, the company enjoyed constant gross profit due to its quality cellular phone solutions as well as after-sales services to customers. The Company's gross margin has increased from approximately 3.69% to 6.52% when compared to the nine months ended 30 September last year because it has had a particularly effective product mix in addition to the provision of excellent value-for-market consultancy services.

The Company is in the process of consolidation and overhead streamlining, which has contributed to a certain amount of savings in this quarter but the resulting cost-cutting effect will only be reflected in the coming months. Besides the operation cost savings, the operational improvements have also allowed the teams to respond flexibly and more swiftly to the Company's customers' changing demands as well as to the changes in the industry.

Launching of the SMART phone solution is on schedule. The SMART phone sample product, which includes the features of Multimedia Messaging Service function, mega pixel camera and camcorder, was delivered to clients for evaluation during this quarter. The Company received considerable positive feedback from customers and it is believed that the product will further increase the Company's customers' product mix profile.

With China Unicom to remain the focus on CDMA networks, the Company will keep a close track of its development in order to take timely advantage of new opportunities while exercising prudent evaluation and monitoring market conditions.

The mobile phone industry is ever-changing and the Company will maintain its pace and strategy that has been adopted to keep ahead of the market. The Company will not slow down its product development, so as to commit to providing advanced & quality product solutions to customers to assure continuation of growth in revenue and profit margins.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 September 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
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 0.75% 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 September 2004.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any director or chief executive of the Company, as at 30 September 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”)	74,621,186	18.37%
Chan Ka Wo (<i>Note 1</i>)	74,621,186	18.37%
Ong Se Mon	50,000,000	12.31%
Pilot Choice (<i>Note 2</i>)	50,000,000	12.31%
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 3</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 4</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	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 Pilot Choice is legally and beneficially owned by 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 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.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

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 executives 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 September 2004.

SHARE OPTION SCHEME

As at 30 September 2004, no option has been granted or agreed to be granted by the Company under the share option scheme.

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 September 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\$34,620,000, representing approximately 17.73% 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.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

During the nine months ended 30 September 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all directors of the Company and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the directors of the Company.

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 Nine-Month 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 September 2004 neither Hantec nor its directors or employees or associates had any interest in the shares of the Company or any member of the Group.

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 three members comprising the three independent non-executive directors, Mr Lee Kin Keung, Mr Li Meng Long and Mr Lo Hang Fong.

The Committee has already reviewed the Group's unaudited third quarterly report for the nine months ended 30 September 2004.

DIRECTORS

Executive directors of the Company as at the date of this document 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 document are Mr Lee Kin Keung, Mr Li Meng Long and Mr Lo Hang Fong.

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

Hong Kong, 12 November 2004