QUASAR
COMMUNICATION TECHNOLOGY

QUASAR Communication Technology Holdings Limited

Annual 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.

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

Ra Chang Ju   Chairman & CEO
Park Seung Rae
Kim Kwang Hoe
Ong Se Mon
Jo Won Seob (Resigned on 9 July 2004)

Independent Non-Executive Directors

Lee Kin Keung
Lo Hang Fong
Li Meng Long (Appointed on 30 September 2004)

Compliance Officer

Ra Chang Ju

Company Secretary

Ng Yuk Chun, CPA(Aust.), *HKICPA*
(Appointed on 31 August 2004)
Chu Kin Men, HKICPA
(Resigned on 31 August 2004)

Authorised Representative

Ra Chang Ju
Ng Yuk Chun, CPA(Aust.), *HKICPA*
(Appointed on 31 August 2004)
Chu Kin Men, HKICPA
(Resigned on 31 August 2004)

Qualified Accountant

Ng Yuk Chun, CPA(Aust.), *HKICPA*
(Appointed on 31 August 2004)
Chu Kin Men, HKICPA
(Resigned on 31 August 2004)

Audit Committee

Lee Kin Keung
Lo Hang Fong
Li Meng Long (Appointed on 30 September 2004)

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
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Sponsor

Hantec Capital Limited
(Appointed on 12 July 2004)
Shenyin Wanguo Capital (H.K.) Limited
(Resigned on 15 April 2004)

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

The swift development and growing profit margin of the mobile phone industry in past few years have genuinely invited investments from both multinational and domestic companies while at the same time made China the world's largest mobile phone manufacturer.

The too-rapid expansion of the mobile phone industry of China has, however, resulted in an overheated atmosphere where intensive competition among industry players thwarted further development of the industry. Severe competition within the local mobile phone market has in turn brought along the adverse aftermaths of sharp enhancement in capacity, fluctuation in prices and increase in penetration rate.

Local manufacturers now suffer even more rigorous competition as foreign brands such as Nokia, Motorola and Sony Ericsson, which only targeted at the high-end market in the past, are all seeking to secure their market shares among the low-price segment as well. Many foreign brands have already launched numerous entry-level products to the market to serve their new business objectives.

On the other hand, in order to effectively cope with overstocking problem, domestic market players have to resort to effective but yet detrimental measures such as price reduction or scale down of profit margins in order to confront with immense competition.

Having said that, reports from the National Development & Reform Commission website recently did reviewed some comforting fact, which stated that certain macro-economical control measures were being strengthened so as to restrain the overcapacity in production and investment risk. Fortunately, the mobile phone market of China has finally gone through the difficult year of 2004 amid consolidation.

Quasar, as a solution provider in supporting our customers in China, was undoubtedly affected by such turmoil. In addition to the above, change of China Unicom's tactic to defocus on the CDMA market in 2004 also affected the Group's business activities in the CDMA market as a whole.

Although the market condition has been tough, we remain optimistic towards the future of the telecommunication industry of China backed by the proven potential for further expansion and the continual upgrades of consumers' demand for higher quality products. Faced with the currently stringent market condition, we will work hard on maintaining our market position as one of the key providers of high quality cellular phone solutions to customers.

Financial Review

During the period ended 31 December 2004, turnover of the Group declined by 43.77% from HK$1,156 million recorded in the same period in 2003 to HK$650 million. Gross profit dropped by 41.67% from HK$48 million to HK$28 million as compared to 2003.

The drop in gross profit margin was mainly attributable to the management decision made to write off a GSM mobile phone project totaling around HK$12 million during the period under review. This decision made was based on the fact that moldings of this project had resulted in overstocking. If modification was to be continued, the non-competitiveness of the products would then further push down the market price, which eventually would result in a loss for the Group. Thus, the Group was then quick in determining not to further invest into more modification of the moldings.

It is always our corporate objectives to maintain and upgrade the quality and standard of our products at different times, to satisfy the always-changing market demands while at the same time also to provide the state-of-the-art technology and solutions to our customers at large. The write off decision mentioned above was genuinely an act to stabilise our margin at a level at 4.3% as of 2003. Our much focused business strategy to provide advanced hi-tech and high-end products and total solutions to our customers contributed a lot in upholding our profit margin over time.

In order to cope with the challenging business environment, the Group has successfully implemented a series of operational and workflow consolidation and refinement plans in the second half of 2004. Upon the restructuring, the Group has trimmed down the total operational overhead by approximately 11.52% from around HK$39 million in 2003 to around HK$35 million in 2004. Significant reduction in overhead cost enabled the Group to achieve cost saving objectives while at the same time greatly improved efficiency and competitiveness of our operation team. With this encouraging result, the Group will continue to contribute our effort in optimizing operation efficiency and ensuring the quality of our products and services as a whole.

Operational Review

One of our key business focuses is the development of innovative product solutions. Leveraging on the advancement in technology of which the Group already excels in, our newly designed SMART phone solution will be launched to the market according to our preset schedule. Pre-production phase for the product has been completed by the fourth quarter of 2004. We expect to receive customers' evaluation feedbacks by the second half of 2005, which will form the basis of our mass production planning.

Quasar continued to deliver value-for-money and quality solutions to our customers during the period under review and has succeeded in maintaining close relationship with them. The Group relies on two key areas to maintain our growth potential, namely, product range and client base expansion. While the Group never ceases in inventing and introducing new products and services to the market, we also contribute aggressively in the extension of our distribution base in the PRC. In 2004, the Group has successfully liaised and extended our business partners' base in the PRC to include local distributors with extensive local distribution networks. This achievement helped a lot in diversifying our business risks while at the same time improving the level of flexibility while product solution delivery is concerned.

One of our business goals is to broaden our geographical exposure. Quasar is actively seeking to identify and cooperate with potential partners in regions outside China, such as Eastern Europe, Middle East and South East Asia, which are all emerging markets with high potential growth in mobile phone usage.

Prospect

In order to tackle with the challenging market environment, we will maintain our focus on the provision of quality cellular phone solutions to our customers. To this end, we have also developed a wider range of product profiles. For high-end products, such as SMART phones and PDA phones, our Korean solutions are providing the most innovative & state-of-the-art technology so as to stay competitive among customers who like to keep up with the most up-to-date technological trends.

In addition, the Group will also focus on the provision of CDMA network cellular solutions in 2005, inline with the focus of China Unicom.

The Group will also focus on a new product line for GSM and CDMA entry-level product solutions based on proven R&D technology and platform imported from Korea. To remain competitive, the Group will scale down the relatively high operating costs in Korea by shifting part of the manufacturing procedures to China.

To further strengthen our sales and marketing and R&D competency, we are planning to set up a representative office in Shenzhen to further articulate the Group's commitment and determination in delivering the best solutions to the market. Our Shenzhen office is expected to be in full operation by the second quarter of this year. This would enable our clients to receive comprehensive after-sales services and technical support from our professional team. This will be an indirect means to secure profitability to the Group and also to our shareholders.

Mobile phones were merely simple communication tools in the past. However, with the advance in mobile technology and the changing demand from users, mobile phones have become part of our everyday fashion and are valued for their multi-functional capability. Besides the basic function of communication, mobile phones have also evolved to become our personal data storage instruments and sources of entertainment. With all the changing needs of mobile phone users, demand for mobile phones' add-on functionalities and solutions are enormous. While the local manufacturers can obtain first-hand information regarding the changing tastes and demands of their customers, they now stand in a privileged position, which allows them to act fast to changing needs. The Group, on the other hand, will further leverage on the current trend, which has already greatly elevated consumers' needs for premium quality products.

According to the In-Stat/MDR quoted by xinhuanet.com, there will be a moderate increase in global demand for mobile phones in 2005 by approximately 8% while total sales volume will increase to 726 million sets.

According to China Economic Net, number of mobile phone subscribers in China will increase from 330 million in 2004 to 402 million in 2005. Coupled with the large number of subscribers pending to replace their mobile phones, business potential for domestic manufacturers improves.

Looking ahead, 2005 will be a more promising year for Quasar as supported by all the above favorable factors. Leveraging on our prudent and experienced management and our strong and determined workforce, we will strive to maintain and further expand our market share and bring along greater returns to our shareholders as well.

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.

RA Chang Ju
Chairman

Hong Kong, 21 March 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 approximately 1.53 (2003: 1.59) and total cash on hand amounted to approximately HK$57,417,000 (2003: HK$68,448,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 31 December 2004, the gearing ratio based on total liabilities over total assets was approximately 58.78% (2003: 59.18%).

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 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, foreign exchange risk was considered to be minimal.

Employees

As at 31 December 2004, there was a total of 52 (2003: 68) full-time staff employed by the Group. The staff costs for the year including directors' remuneration were approximately HK$21,109,000 (2003: HK$18,329,000). The total amount comprised salaries, wages and allowance, medical and insurance coverage, pension fund scheme and discretionary bonus. The 15.17% increase was attributable to the recruitment of more human resources in Korea in first half of 2004.

Significant Investments and Material Acquisitions

During the period 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 (2003: HK$119,000,000) given to banks by the Company in respect of banking facilities available to certain wholly owned subsidiaries. As at 31 December 2004, the Group had commitment under operating lease amounting to approximately HK$1,034,000 (2003: HK$1,797,000) 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.

Compliance with Rules 5.48 to 5.67 of The GEM Listing Rules

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

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.

Audit Committee

The audit committee comprises three independent non-executive directors, namely Mr. Lee Kin Keung, Mr. Lo Hang Fong and Mr. Li Meng Long. The terms of reference of the audit committee have been established with regard to Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. During the year ended 31 December 2004, one meeting were held.

The audit committee has reviewed with management this audited annual results.

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 31 December 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 date 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
Business objectives:	Provision of software development 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 2005
Business objectives:	Complete the prototype and commercial launch
Actual progress:	SMART phone sample product was delivered to clients for evaluation in 3rd quarter 2004. Pre-production for the product has been finished in 4th quarter 2004 and expected to receive customer evaluation feedback for mass production in 2nd half 2005

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
Business objectives:	Setting up sales office in the U.S.
Actual progress:	Currently, no additional sales office has been set up, as it is not considered appropriate under current market condition.

Use of Proceeds

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

	As stated in prospectus up to 31 Dec. 2004	**Actual amount used up to 31 Dec. 2004**
	HK$'000	*HK$'000*
Cellular phone solution development	19,266	12,963
Other solution development	9,828	7,800
Sales & marketing capabilities	1,560	978
Technical support capabilities	7,644	6,256
Others	4,716	9,525
	43,014	37,522

The total investments for the implementation of the business objectives were principally financed by the net proceeds from the placing of shares, and the remaining through the Group's internal resources. The total cost incurred up to 31 December 2004 were approximately HK$37,522,000 that included about HK$7,436,000 being financed by internal generated fund. As at 31 December 2004, balances of the unused proceeds, which are not immediately applied, are placed on deposits with financial institutions in Hong Kong.

Executive Directors

Ra Chang Ju, aged 40, is the chairman and 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.

Park Seung Rae, aged 42, is the chief marketing officer and co-founder of the Group. He is responsible for the overall strategic planning and formulation sales and marketing strategy of the Group. Mr. Park holds a bachelor degree in Chinese literature from Seoul National University in South Korea. He has more than 17 years of experience in communication product field. Prior to founding the Group, he held senior management position in international company with business location in China.

Kim Kwang Hoe, aged 48, is the chief technical officer and co-founder of the Group. He holds a bachelor degree in mechanical engineering from Ajou University in South Korea. Mr. Kim held senior management position in international company and has accumulated knowledge, experience and technical know-how in data transmission.

Ong Se Mon, aged 41, holds a bachelor degree in statistics and computer science from the University of New South Wales, Australia. He has over 13 years of experience in the computer industry and held senior management position in an actuary and consulting firm. He was appointed as an executive director of the Company on 10 April 2002.

Independent Non-Executive Directors

Lee Kin Keung, aged 43, holds a Bachelor of Commerce degree and a Master of Commence degree from University of New South Wales and also holds a Master of Applied Finance degree from Macquarie University in Australia. Mr. Lee has over 16 years of experience in finance, management, auditing and accounting. He is both a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He was appointed as an independent non-executive director of the Company on 27 April 2002.

Lo Hang Fong, aged 40. Mr Lo is a solicitor practicing in Hong Kong and is currently a partner with Messrs. Stevenson Wong & Co. Solicitors & Notaries. He has acquired over 13 years of experience in corporate advisory on mergers and acquisitions, initial public offerings and loan syndication. He was appointed as an independent non-executive director of the Company on 1 August 2003.

Li Meng Long, aged 41. 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.

Company Secretary & Qualified Accountant

Ng Yuk Chun, aged 40, is the company secretary & financial controller of the Group. She holds a bachelor degree in business from the University of Ballarat in Australia. Ms. Ng is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. She has over 13 years of experience in accounting & finance field.

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2004.

Principal Activities

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 15 to the financial statements.

Results and Appropriation

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 20.

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

Reserves

Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 23 and in note 22 to the financial statements, respectively.

Property, Plant and Equipment

Movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

Purchase, Sale or Redemption of Listed Securities

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

Directors

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

Executive directors

Mr. Ra Chang Ju
Mr. Kim Kwang Hoe
Mr. Park Seung Rae
Mr. Ong Se Mon, alias Wang Shih Wen
Mr. Jo Won Seob (resigned on 9 July 2004)

Independent non-executive directors

Mr. Lee Kin Keung
Mr. Lo Hang Fong
Mr. Li Meng Long (appointed on 30 September 2004)

In accordance with Clause 87 of the Company's Articles of Association, Messrs. Park Seung Rae and Li Meng Long retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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. 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.

The independent non-executive directors have no fixed term of office but are subject to the provision of retirement and rotation of directors under the Articles of Association of the Company.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' and Chief Executives' Interests in Shares

At 31 December 2004, the interests of the directors and chief executives in the shares of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (the "SFO")), as recorded in the registers maintained by the Company pursuant to Section 352 of the SFO, or which were required under the Rules Governing the Listing of Securities on Growth Enterprises Market (the "GEM Listing Rules") to be notified to the Company and the Stock Exchange of Hong Kong Limited, were as follows:

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Ra Chang Ju	Corporate interests (*Note 1*)	14,338,235	3.53%
Mr. Kim Kwang Hoe	Corporate interests (*Note 2*)	15,931,373	3.92%
Mr. Ong Se Mon	Corporate and other interests (*Note 4*)	50,000,000 (*Note 3*)	12.31% (*Note 3*)

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 entire 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 People Talent Assets Limited ("People Talent"). Mr. Kim Kwang Hoe legally and beneficially owns the entire issued share capital of People Talent. Accordingly, Mr. Kim Kwang Hoe is deemed to be interested in all the shares registered in the name of People Talent.

3. 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 share 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.

4. Other than the interest disclosed in Note 3, 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 approximately 0.71% of the issued share capital of PINE Technology. PINE Technology has 10.27% indirect interest in the Company.

Other than the holdings disclosed above, none of the Company's directors, chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2004.

Share Option Scheme

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

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

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

As at 31 December 2004, no option had been granted or agreed to be granted by the Company under the Scheme.

Arrangements to Purchase Shares or Debentures

Other than the section "Share Option Scheme" disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Substantial Shareholders

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

Long positions in the shares

Name of shareholder	**Capacity**	**Number of shares**	**Percentage of interests**
Choice Media Investments Limited ("Choice Media") (*Note 1*)	Beneficial owner	74,621,186	18.37%
Mr. Chan Ka Wo (*Note 1*)	Corporate interests	74,621,186	18.37%
Pilot Choice (*Note 2*)	Beneficial owner	50,000,000	12.31%
Mr. Ong Se Mon (*Note 2*)	Corporate interests	50,000,000	12.31%
i.Concept (*Note 3*)	Beneficial owner	41,740,196	10.27%
Pan Eagle Limited (*Note 3*)	Corporate interests	41,740,196	10.27%
Pine Technology (BVI) Limited (*Note 3*)	Corporate interests	41,740,196	10.27%
PINE Technology (*Note 3*)	Corporate interests	41,740,196	10.27%
Shenyin Wanguo Strategic Investments (H.K.) Limited (*Note 4*)	Beneficial owner	20,000,000	4.92%
Shenyin Wanguo Trading (H.K.) Limited (*Note 4*)	Beneficial owner	21,628,000	5.32%
Shenyin Wanguo (H.K.) Limited (*Note 4*)	Corporate interests	41,628,000	10.25%

Short positions in the shares

Name of shareholder	Capacity	Number of shares	Percentage of interests
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 entire 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.

Competing Interests

None of the directors, initial management shareholders or their respective associates of the Company has an interest in a business which competes or may compete with the business of the Group.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Interests in Contracts 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.

Major Customers and suppliers

For the year ended 31 December 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 79% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 54% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 39% of the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 12% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

Pre-emptive Rights

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

Audit Committee

The Company established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The Committee has three members comprising Messrs. Lee Kin Keung, Lo Hang Fong and Li Meng Long. Mr. Lee Kin Keung has been appointed chairman of the Committee. Mr. Li Meng Long was appointed as a new member of the Committee with effect from 30 September 2004.

The Committee has met once for the year ended 31 December 2004 with the management to discuss and review the Group's various issues with a view to further improve the Group's corporate governance.

Board Practices and procedures

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

Compliance with Rules 5.48 to 5.67 of the GEM Listing rules

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

Sponsor's Interest

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 31 December 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 remaining of the financial year of the Company until 31 December 2004.

Auditors

Messrs. PricewaterhouseCoopers acted as the auditors of the Company for each of the three years ended 31 December 2003.

Messrs. Deloitte Touche Tohmatsu was appointed as the auditors during the year. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ra Chang Ju
Chairman

Hong Kong, 21 March 2005

Deloitte.
德勤

TO THE MEMBERS OF
QUASAR COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
思拓通訊科技控股有限公司
(incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 42 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong 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 an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the 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 the Group as at 31 December 2004 and of the loss 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 21 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	**2004** HK$'000	2003 HK$'000
Turnover	4	**649,756**	1,155,690
Cost of sales		**(621,704)**	(1,107,218)
Gross profit		**28,052**	48,472
Other operating income	6	**1,698**	324
Research and development costs		**(807)**	(3,308)
Depreciation of property, plant and equipment		**(1,714)**	(428)
Staff costs		**(21,109)**	(18,329)
Other operating expenses		**(11,038)**	(17,118)
(Loss) profit from operations	7	**(4,918)**	9,613
Impairment loss on investments in securities		**(2,500)**	–
Finance costs	8	**(594)**	(81)
(Loss) profit before taxation		**(8,012)**	9,532
Taxation	10	**(829)**	(1,002)
Net (loss) profit for the year		**(8,841)**	8,530
(Loss) earnings per share – basic	11	**(2.18) cents**	2.10 cents

At 31 December 2004

	NOTES	2004	2003
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	12	**5,514**	2,427
Intangible assets	13	**14**	16
Investments in securities	14	**6,642**	9,142
Deferred tax assets	24	**246**	246
Prepaid licence fees		**5,460**	–
		17,876	11,831
Current assets			
Inventories	16	**7,502**	144
Trade receivables	17	**49,368**	85,017
Deposits, prepayments and other receivables		**8,965**	14,728
Amount due from customers for contract works	18	**31,600**	15,126
Bank balances and cash		**57,417**	68,448
		154,852	183,463
Current liabilities			
Trade payables	19	**71,625**	108,286
Bills payable		**9,347**	–
Other payables and accruals		**3,566**	4,480
Taxation payable		**2,675**	2,630
Trust receipt loans		**14,139**	–
		101,352	115,396
Net current assets		**53,500**	68,067
		71,376	79,898
Capital and reserves			
Share capital	20	**4,063**	4,063
Reserves		**67,138**	75,664
		71,201	79,727
Non-current liability			
Deferred tax liabilities	24	**175**	171
		71,376	79,898

The financial statements on pages 20 to 42 were approved and authorised for issue by the Board of Directors on 21 March 2005 and are signed on its behalf by:

RA CHANG JU
Chairman

ONG SE MON
Director

Balance Sheet

At 31 December 2004

	NOTES	2004	2003
		HK$'000	HK$'000
Non-current assets			
Intangible assets	13	**14**	16
Interests in subsidiaries	15	**59,763**	60,854
		59,777	60,870
Current assets			
Prepayments		**270**	18
Bank balances and cash		**48**	14
		318	32
Current liability			
Accruals		**120**	80
Net current assets (liabilities)		**198**	(48)
		59,975	60,822
Capital and reserves			
Share capital	20	**4,063**	4,063
Reserves	22	**55,516**	56,533
		59,579	60,596
Non-current liability			
Amount due to a subsidiary	23	**396**	226
		59,975	60,822

RA CHANG JU
Chairman

ONG SE MON
Director

For the year ended 31 December 2004

	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000 (note 2)	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2003	4,063	41,573	11,157	83	18,374	75,250
Exchange adjustment on overseas operations not recognised in the consolidated income statement	–	–	–	10	–	10
Net profit for the year	–	–	–	–	8,530	8,530
Dividend paid (*note 1*)	–	–	–	–	(4,063)	(4,063)
At 31 December 2003	4,063	41,573	11,157	93	22,841	79,727
Exchange adjustment on overseas operations not recognised in the consolidated income statement	–	–	–	315	–	315
Net loss for the year	–	–	–	–	(8,841)	(8,841)
At 31 December 2004	4,063	41,573	11,157	408	14,000	71,201

Notes:

1. It represented the final dividend of HK$0.01 per share for the year ended 31 December 2002.

2. 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.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004	2003
	HK$'000	HK$'000
Operating activities		
(Loss) profit from operations	**(4,918)**	9,613
Adjustments for:		
Amortisation of intangible assets	**2**	1
Interest income	**(51)**	(95)
Depreciation of property, plant and equipment	**1,714**	428
(Gain) loss on disposal of property, plant and equipment	**(832)**	155
Operating cash (outflow)/inflow before movements in working capital	**(4,085)**	10,102
Increase in inventories	**(7,358)**	(144)
Decrease in trade receivables	**35,649**	62,796
Decrease (increase) in deposits, prepayments and other receivables	**303**	(3,011)
Increase in amount due from customers for contract works	**(16,474)**	(935)
Decrease in trade payables	**(36,661)**	(31,210)
Increase in bills payable	**9,347**	–
Decrease in other payables and accruals	**(914)**	(1,828)
Cash (used in) generated from operations	**(20,193)**	35,770
Hong Kong Profits Tax paid	**(780)**	–
Net cash (used in) from operating activities	**(20,973)**	35,770
Investing activities		
Interest received	**51**	95
Purchase of property, plant and equipment	**(5,861)**	(2,444)
Proceeds from disposal of property, plant and equipment	**2,162**	248
Purchase of intangible assets	**–**	(1)
Net cash used in investing activities	**(3,648)**	(2,102)
Financing activities		
Dividend paid	**–**	(4,063)
Interest paid	**(594)**	(81)
New trust receipt loans raised	**14,139**	–
Net cash from (used in) financing activities	**13,545**	(4,144)
Net (decrease) increase in cash and cash equivalents	**(11,076)**	29,524
Cash and cash equivalents at beginning of the year	**68,448**	38,911
Effect of foreign exchange rate changes	**45**	13
Cash and cash equivalents at end of the year	**57,417**	68,448
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**57,417**	68,448

1. GENERAL

The Company is an exempted company with limited liability incorporated in Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 15.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Contracts

The Group enters into cellular phone solution contracts with customers whereby a number of elements are bundled together in one contract – i.e. design and development of product, supply of components and parts, provision of engineering support, post delivery support services and related consultancy works. The contract price cannot be allocated to individual elements and the Group invoices its customers at a margin over certain defined costs. The Group refers to these contracts as "cost plus contracts".

Revenues from cost plus contracts are recognised by reference to the stage of completion of the cost plus contracts, including post delivery service support, at the balance sheet date. The stage of completion is measured by reference to costs incurred to date as a percentage to the estimated total costs for the contract.

Others

Technical consultancy income is recognised when the services are rendered.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceed and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Trademarks

Trademarks are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated at first-in, first-out method. Net realisable value represents the expected selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Contracts

When the outcome of a contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contracts *(continued)*

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet as advances received. Amounts billed for work performed but not yet paid by the customers, are included in the balance sheet within trade and other receivables.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit plan/the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Operating leases

The annual rentals under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. TURNOVER

	2004	2003
	HK$'000	HK$'000
Revenue from cost plus contracts	**648,756**	1,152,999
Technical consultancy income	**1,000**	2,691
	649,756	1,155,690

5. SEGMENT INFORMATION

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

No geographical segments analysis is presented as less than 10% of the Group's turnover and contribution to operating results is attributable to markets outside the People's Republic of China (the "PRC").

As at 31 December 2004 and 2003, over 90% of the Group's assets, liabilities and capital expenditure are attributable to the business of provision of cellular phone solutions to the PRC market.

6. OTHER OPERATING INCOME

	2004	2003
	HK$'000	*HK$'000*
Exchange gains, net	**223**	–
Gain on disposal of property, plant and equipment	**832**	–
Interest income	**51**	95
Rental income	**–**	137
Sundry income	**592**	92
	1,698	324

7. (LOSS) PROFIT FROM OPERATIONS (INCLUDING OTHER OPERATING EXPENSES)

	2004	2003
	HK$'000	*HK$'000*
(Loss) profit from operations has been arrived at after charging (crediting):		
Amortisation of intangible assets	**2**	1
Auditors' remuneration	**390**	494
Cost of inventories sold	**621,704**	1,107,218
Exchange losses, net	**–**	171
Loss on disposal of property, plant and equipment	**–**	155
Minimum lease payments for operating leases in respect of rented premises	**1,846**	1,740
Research and development costs	**1,041**	19,995
Less: amount capitalised in contract work	**(234)**	(16,687)
	807	3,308

8. FINANCE COSTS

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

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004	2003
	HK$'000	HK$'000
Fees:		
Executives	**–**	–
Independent non-executives	**254**	240
	254	240
Other emoluments:		
Executives		
Salaries and other benefits	**3,770**	4,521
Contributions to retirement benefits scheme	**101**	113
	3,871	4,634
	4,125	4,874

The directors' emoluments were within the following bands:

	2004	2003
	Number of directors	Number of directors
Nil to HK$1,000,000	**7**	6
HK$1,000,001 – HK$1,500,000	**1**	2
	8	8

During the year, each of the five executive directors of the Company received emoluments from the Group of HK$1,232,000 (2003: HK$1,367,000), HK$592,000 (2003: HK$1,145,000), HK$758,000 (2003: HK$635,000), HK$646,000 (2003: HK$831,000) and HK$643,000 (2003: HK$656,000), respectively.

Except for directors' fees as disclosed above, no emoluments were paid to the independent non-executive directors during the two years ended 31 December 2004.

No director waived any emoluments for the two years ended 31 December 2004.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Employees' emoluments

The five highest paid individuals included three directors (2003: five directors), details of whose emoluments are set out above. The emoluments of the remaining two (2003: nil) individuals are as follows:

	2004 HK$'000	2003 HK$'000
Salaries and other benefits	**1,505**	–
Contributions to retirement benefits scheme	**65**	–
	1,570	–

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

10. TAXATION

	2004 HK$'000	2003 HK$'000
The charge comprises:		
Hong Kong Profits Tax	**825**	816
Overseas taxation	**–**	214
	825	1,030
Deferred tax (*note* 24)	**4**	(28)
	829	1,002

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

10. TAXATION *(continued)*

The tax charge for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2004	2003
	HK$'000	HK$'000
(Loss) profit before taxation	**(8,012)**	9,532
Tax at the Hong Kong Profits Tax rate of 17.5%	**(1,402)**	1,668
Tax effect of income not taxable for tax purpose	**(139)**	(485)
Tax effect of expenses not deductible for tax purpose	**1,133**	184
Tax effect of tax losses not recognised	**1,250**	257
Utilisation of tax losses previously not recognised	**–**	(104)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	(521)
Others	**(13)**	3
Tax charge for the year	**829**	1,002

11. (LOSS) EARNINGS PER SHARE

The calculation of (loss) earnings per share is based on the net loss for the year of HK$8,841,000 (2003: profit of HK$8,530,000) and on 406,251,500 (2003: 406,251,500) ordinary shares in issue during the year. Diluted earnings per share is not shown as there was no dilutive potential shares in existence during the two years ended 31 December 2004.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP				
COST				
At 1 January 2004	1,809	822	426	3,057
Exchange adjustments	234	80	2	316
Additions	726	5,135	–	5,861
Disposals	(113)	(1,323)	–	(1,436)
At 31 December 2004	2,656	4,714	428	7,798
DEPRECIATION				
At 1 January 2004	298	96	236	630
Exchange adjustments	43	3	–	46
Provided for the year	621	986	107	1,714
Eliminated on disposals	(61)	(45)	–	(106)
At 31 December 2004	901	1,040	343	2,284
NET BOOK VALUES				
At 31 December 2004	1,755	3,674	85	5,514
At 31 December 2003	1,511	726	190	2,427

13. INTANGIBLE ASSETS

	Trademarks
	HK$'000
THE GROUP AND THE COMPANY	
COST	
At 1 January 2004 and at 31 December 2004	17
AMORTISATION	
At 1 January 2004	1
Charge for the year	2
At 31 December 2004	3
CARRYING AMOUNT	
At 31 December 2004	14
At 31 December 2003	16

Trademarks are amortised using the straight-line basis over their estimated useful life of 7 years.

14. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Unlisted investment securities, at cost	**9,142**	9,142
Impairment loss recognised	**(2,500)**	–
	6,642	9,142

The directors of the Company have reviewed the carrying amount of the investment securities of the Group as at 31 December 2004, and have determined to recognise the impairment loss of HK$2,500,000.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$'000	HK$'000
Unlisted investments, at cost	**14,882**	14,882
Amounts due from subsidiaries	**44,881**	45,972
	59,763	60,854

Particulars of the subsidiaries at 31 December 2004 are as follows:

Name	Country/ place of incorporation	Particulars of issued and fully paid up share capital	Percentage of interest held Directly	Percentage of interest held Indirectly	Principal activities and place of operations
Ace Solution Technology Limited	The British Virgin Islands	10,200 ordinary shares of US$1 each	100%	–	Investment holding in Hong Kong
Gold Glory Development Limited	The British Virgin Islands	2,000 ordinary shares of US$1 each	–	100%	Investment holding in Hong Kong
Hanbit I & T (HK) Co. Limited	Hong Kong	800,000 ordinary shares of HK$1 each	–	100%	Sales and marketing of mobile appliance solution in Hong Kong
Qualified Ltd.	The British Virgin Islands	100 ordinary shares of US$1 each	–	100%	Investment holding in Hong Kong
Quasar Communication Technology Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sales and marketing of mobile appliance solution in Hong Kong
Quasar Communication Technology Korea Ltd	South Korea	60,000 ordinary shares of KRW5,000 each	–	100%	Development of software and solutions for mobile appliance in South Korea
Synerex Inc.	The British Virgin Islands	10,200 ordinary shares of US$1 each	–	100%	Investment holding in Hong Kong

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Country/ place of incorporation	Particulars of issued and fully paid up share capital	Percentage of interest held Directly	Percentage of interest held Indirectly	Principal activities and place of operations
Zetta Global Limited	Hong Kong	100 ordinary shares of HK$1 each	–	100%	Provision of management services to group companies in Hong Kong
Zetta Media Holdings Limited	The British Virgin Islands	100 ordinary shares of US$1 each	–	100%	Investment holding in Hong Kong

The amounts due from subsidiaries are unsecured and interest-free. The Company has agreed not to demand repayment of the balance within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

16. INVENTORIES

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Finished goods, at cost	**7,502**	144

17. TRADE RECEIVABLES

The Group allows a credit period ranging from 30 to 60 days to its customers.

The aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Current – not due	**32,234**	78,590
1 – 30 days overdue	**7,309**	4,607
31 – 60 days overdue	**8,273**	333
Over 60 days overdue	**1,552**	1,487
	49,368	85,017

18. AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORKS

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus attributable profits less recognised losses	**31,600**	29,263
Less: Progress payments received and receivable	–	(14,137)
	31,600	15,126
Analysed for reporting purposes as:		
Amount due from customers for contract works	**31,600**	15,126

19. TRADE PAYABLES

The aged analysis as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Current – not due	**20,762**	81,724
1 – 30 days overdue	**15,251**	26,033
31 – 60 days overdue	**22,153**	501
Over 60 days overdue	**13,459**	28
	71,625	108,286

20. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2003 and 2004	1,000,000,000	10,000
Issued and fully paid:		
At 31 December 2003 and 2004	406,251,500	4,063

21. SHARE OPTION SCHEME

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

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

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

As at 31 December 2004, no option had been granted or agreed to be granted by the Company under the Scheme.

22. RESERVES

	Special reserve	Share premium	Retained profits (deficit)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY				
As 1 January 2003	14,879	41,573	4,131	60,583
Net profit for the year	–	–	13	13
Dividend paid	–	–	(4,063)	(4,063)
At 31 December 2003	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

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:

	2004	2003
	HK$'000	*HK$'000*
Special reserve	**14,879**	14,879
Share premium	**41,573**	41,573
(Deficit) retained profits	**(936)**	81
	55,516	56,533

23. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured and interest-free. The repayment of the amount will not be demanded within the next twelve months from the balance sheet date and accordingly, the amount is shown as non-current.

24. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

	Tax losses	Accelerated tax depreciation	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2003	47	–	47
Credit (charge) for the year	237	(209)	28
At 31 December 2003	284	(209)	75
Charge for the year	–	(4)	(4)
At 31 December 2004	284	(213)	71

	2004	2003
	HK$'000	HK$'000
Deferred tax assets	**246**	246
Deferred tax liabilities	**(175)**	(171)
	71	75

At 31 December 2004, the Group has unused tax losses of approximately HK$8,788,000 (2003: HK$1,646,000) available for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$1,626,000 (2003: HK$1,626,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$7,162,000 (2003: HK$20,000) due to the unpredictability of future profit streams.

25. CONTINGENT LIABILITIES

At 31 December 2004, the Company has given corporate guarantee to banks in respect of loan facilities granted to subsidiaries amounted to HK$240,000,000 (2003: HK$119,000,000). At the balance sheet date, the facilities utilised by the subsidiaries amounted to HK$23,486,000 (2003: nil).

26. CAPITAL COMMITMENTS

At 31 December 2004, the Group did not have any capital commitment. At 31 December 2003, the Group had commitment in respect of the research and development project, contracted for but not provided in the financial statements, amounted to HK$5,705,000.

The Company did not have any capital commitment at the balance sheet dates.

27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Within one year	**1,034**	1,452
In the second to fifth year inclusive	**–**	345
	1,034	1,797

Leases are negotiated for terms of two years with fixed rentals over the terms of the leases.

The Company did not have any operating lease commitment at the balance sheet date.

28. RETIREMENT BENEFITS SCHEMES

A mandatory provident fund scheme has been set up for all the eligible employees of the Group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries. The assets of the scheme are held separately from those of the Group in an independently administered fund.

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 ("Korean Contribution") is accrued as of the balance sheet date.

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

The total contribution to the above retirement benefits schemes paid and payable by the Group amounted to HK$1,868,000 (2003: HK$755,000).

	Year ended 31 December				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**649,756**	1,155,690	1,372,729	308,270	195
Net (loss) profit for the year	**(8,841)**	8,530	24,483	1,986	(9,114)

	As at 31 December				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**172,728**	195,294	222,654	66,733	1,510
Total liabilities	**(101,527)**	(115,567)	(147,404)	(61,749)	(9,101)
Net assets	**71,201**	79,727	75,250	4,984	(7,591)

The results, assets and liabilities for the two years ended 31 December 2001 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, had been in existence throughout the years concerned. The figures for the two years ended 31 December 2001 have been extracted from the Company's prospectus dated 25 July 2002.

NOTICE IS HEREBY GIVEN that an annual general meeting of QUASAR Communication Technology Holdings Limited (the "**Company**") will be held at 10:30 a.m. on Tuesday, 28 June 2005 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 2004;

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** the articles of association (the "**Articles**") of the Company be and are hereby amended in the following manner:

(a) **Article 2(1)**

(i) by inserting the following new definition of "associate" in Article 2(1):

""associate" the meaning attributed to it in the rules of the Designated Stock Exchange.";

(ii) by deleting the words "a recognised clearing house within the meaning of Section 2 of the Securities and Futures (Clearing Houses) Ordinance of Hong Kong or" in the definition of "clearing house";

(b) **Article 66**

by re-numbering the existing Article 66 as Article 66(1) and inserting the following new Article 66(2) immediately after the new Article 66(1):

"66. (2) Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.";

(c) **Article 87(1)**

by deleting the existing Article 87(1) in its entirety and substituting therefor a new Article 87(1) as follows:

"87. (1) Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation.";

(d) **Article 88**

by deleting the words "not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting" in the last sentence of Article 88 and substituting therefor the following provision:

"provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.";

(e) **Article 103**

by deleting the existing Article 103 in its entirety and substituting therefor a new Article 103 as follows:

"103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) is materially interested, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum present at the meeting) but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director and/or any of his associate(s) is/are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associate(s) is derived); or

(vi) any proposal or arrangement concerning the adoption, modification, or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s), (either directly or indirectly) is/are the holder(s) of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associate(s) is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee(s) and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director and/or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director and/or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) hold(s) five (5) per cent. or more of its issued share capital is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not being counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.";

(f) **Article 152**

by inserting the words "or the summary financial report" immediately after the words "and a statement of income and expenditure," and by inserting the words "and at the same time as the notice of the general meeting" immediately after the words "at least twenty-one (21) days before the date of the general meeting";

(g) **Article 155**

(i) by deleting the words "Members appoint another auditor" and substituting therefor the words "next annual general meeting" in the third line of existing Article 155 (1); and

(ii) by deleting the existing Article 155(2) in its entirety and re-numbering the existing Article 155(3) as Article 155(2); and

(h) **Article 158**

by deleting the words "as soon as practicable convene an extraordinary general meeting to" on the third and fourth lines of the existing Article 158 and by inserting the words "and fix the remuneration of the Auditor so appointed" after the words "fill the vacancy" at the end of the existing Article 158."

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

"**THAT**:

(a) subject to paragraph (c) below, pursuant to the Rules (the "**GEM Listing Rules**") Governing the Listing of Securities on 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)."

6. 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."

7. "**THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 5 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
Ra Chang Ju
Chairman

Hong Kong, 30 March 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 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 is enclosed. Such form of proxy is also 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, 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. Park Seung Rae will retire from his office by rotation at the annual general meeting pursuant to Article 87(1) and Mr. Li Meng Long 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.