



QUASAR COMMUNICATION
TECHNOLOGY HOLDINGS LIMITED

Creativity without Limit.

The First Quarterly Report

2005

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

HIGHLIGHTS

- Reported a turnover of approximately HK\$101,622,000 for the quarter
- Achieved a net profit after tax of approximately HK\$843,000 and an earnings per share of HK0.21 cents during the period

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

The unaudited consolidated results of QUASAR Communication Technology Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) for the three months ended 31 March 2005 (the “Quarterly Period”), together with the unaudited comparative figures for the corresponding period in 2004 were as follows:

	<i>Notes</i>	Three months ended 31 March	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	101,622	217,423
Contract costs		(92,960)	(206,408)
		8,662	11,015
Other revenues	2	417	11
Other operating expenses		(7,974)	(9,923)
Profit before taxation		1,105	1,103
Finance costs		(262)	(93)
Profit for the period		843	1,010
Earnings per share			
– Basic (HK cents)	4	0.21	0.25

Notes:

1. Basis of preparation

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

2. Revenues and turnover

The principal activity of the Group is the provision of cellular phone solutions services. Revenues recognised during the Quarterly Period, together with the comparative figures for the corresponding periods in 2004 were as follows:

	Three months ended 31 March	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Revenue from cost plus contracts	101,622	217,423
Other revenues		
Interest income	38	6
Others	379	5
	417	11
Total revenues	102,039	217,434

3. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the three months ended 31 March 2004 and 2005. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the country in which the subsidiary operates.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

4. Earnings per share

The calculation of basic earnings per share for the Quarterly Period is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$843,000 and the weighted average number of 406,251,500 shares. The basic earnings per share for the corresponding quarterly period in 2004 is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$1,010,000 and the weighted average number of 406,251,500 shares.

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

5. Reserves

	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Exchange reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2004	41,573	11,157	93	22,841	75,664
Exchange difference on translation of overseas operations	–	–	51	–	51
Profit for the period	–	–	–	1,010	1,010
As at 31 March 2004	<u>41,573</u>	<u>11,157</u>	<u>144</u>	<u>23,851</u>	<u>76,725</u>
As at 1 January 2005	41,573	11,157	408	14,000	67,138
Exchange difference on translation of overseas operations	–	–	(11)	–	(11)
Profit for the period	–	–	–	843	843
As at 31 March 2005	<u>41,573</u>	<u>11,157</u>	<u>397</u>	<u>14,843</u>	<u>67,970</u>

INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Quarterly Period.

The Group has not declared any dividends for the corresponding quarterly period in 2004.

BUSINESS REVIEW AND OUTLOOK

Turnover of the Group for the period under review decreased from HK\$217,423,000 in 2004 to HK\$101,622,000, representing a drop of 53.26%. This is a result of the Group strategically utilised our advanced technical know-how to concentrate resources & expertise on high-margin business areas. This has lifted up our gross margin of the Group increased from 5.07% of 2004 to 8.52% of 2005.

During the period under review, the Group recorded a profit of HK\$843,000, a decline of 16.53% as compared to HK\$1,010,000 for the same period of last year. Earnings per share was HK0.21 cents (2004: HK0.25 cents) for the period under review.

In the first quarter of 2005, the Group continued to develop sales channels and consolidate business and operational structure, which has resulted in a drop in operating expenses from HK\$9,923,000 in the first quarter of 2004 to HK\$7,974,000.

The Group maintains its core business objective to develop innovative & quality product solutions for the market. Technical viability assessment and specification definition for our CDMA series' solutions were completed during the first quarter of 2005. One of the CDMA solutions is specially designed for CDMA 2000 1x cellular phones with key features that include streamline-shaped luxury look of dual LCD, high-performance pixels camera and useful voice recorder for users and businessmen. This matured product is expected to be launched by the second quarter of 2005.

During the period under review, the Group has successfully reallocated part of the R&D process from Korea to China. This enabled the Group to offer low-cost entry-level GSM series' solutions for different market segments. On the other hand, this also helps improve the Group's competitiveness in the market and secure profitability for the Group.

For high-end products, besides SMART phones and PDA phones, mobile MP3 solutions with MP4 features will be launched in the near future. The add-on functionalities will be welcomed by users who demand for multifunctional capabilities of mobile devices.

Although the mobile phone industry of China is consolidating quickly under the highly competitive market, the Group remains optimistic towards the development potential and market prospect of the industry. The Group will continue to maintain our core competencies in areas of product development while at the same time strengthen our marketing channels so as to bring in more values for our shareholders.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 31 March 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required as recorded in the register required to be kept under section 352 of the SFO or as notified to the Company were as follows:

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

Name of director	Number of shares	Type of interest and capacity	Approximate percentage of interests
Ra Chang Ju	14,338,235	Corporate interest <i>(through holding the entire issued shares of and in Digit Success Investments Limited)</i>	3.53%
Kim Kwang Hoe	15,931,373	Corporate interest <i>(through holding the entire issued shares of and in People Talent Assets Limited)</i>	3.92%
Ong Se Mon	50,000,000	Corporate and other <i>(through holding the entire issued shares of and in Pilot Choice Management Limited and Note 1)</i>	12.31%

Notes:

1. Other than the interest in Pilot Choice Management Limited, 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.

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

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 March 2005, 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”) (<i>Note 1</i>)	Beneficial owner	74,621,186	18.37%
Mr. Chan Ka Wo (<i>Note 1</i>)	Corporate interests	74,621,186	18.37%
Pilot Choice (<i>Note 2</i>)	Beneficial owner	50,000,000	12.31%
Mr. Ong Se Man (<i>Note 2</i>)	Corporate interests	50,000,000	12.31%
i.Concept (<i>Note 3</i>)	Beneficial owner	41,740,196	10.27%
Pan Eagle Limited (<i>Note 3</i>)	Corporate interests	41,740,196	10.27%
Pine Technology (BVI) Limited (<i>Note 3</i>)	Corporate interests	41,740,196	10.27%
PINE Technology (<i>Note 3</i>)	Corporate interests	41,740,196	10.27%
Shenyin Wanguo Strategic Investments (H.K.) Limited (<i>Note 4</i>)	Beneficial owner	20,000,000	4.92%
Shenyin Wanguo Trading (H.K.) Limited (<i>Note 4</i>)	Beneficial owner	21,628,000	5.32%
Shenyin Wanguo (H.K.) Limited (<i>Note 4</i>)	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 or the initial management shareholders of the Company or their respective associates as defined in the GEM Listing Rules had any interest in business that competed or might compete with business of the Group.

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.

SHARE OPTION SCHEME

As at 31 March 2005, no option had been granted or agreed to be granted by the Company under the share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 16 July 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.33 of the GEM Listing Rules. The Committee has three members comprising Messrs. Lee Kin Keung, Lo Hang Fong, and Li Meng Long.

The Committee has already reviewed the Group's unaudited quarterly results for the three months ended 31 March 2005.

DIRECTORS OF THE COMPANY

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

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

Hong Kong, 12 May 2005