



Interim Report 2005



COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

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

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

HIGHLIGHTS

- Report a turnover of approximately HK\$67,215,000 for the Quarterly Period
- Achieved a net profit after tax of approximately HK\$532,000 and a basic earnings per share of HK0.13 cents for the Quarterly Period

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

The unaudited consolidated results of QUASAR Communication Technology Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) for the six months (the “Half-Yearly Period”) and the three months (the “Quarterly Period”) ended 30 June 2005, together with the unaudited comparative figures for the corresponding periods in 2004 were as follows:

	<i>Notes</i>	Six months ended 30 June		Three months ended 30 June	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	168,838	376,654	67,215	159,231
Contract costs		(156,662)	(353,710)	(63,702)	(147,302)
		12,176	22,944	3,513	11,929
Other revenues	2	868	59	451	48
Other operating expenses		(10,877)	(19,581)	(2,903)	(9,658)
Operating profit	4	2,167	3,422	1,061	2,319
Finance costs		(570)	(283)	(308)	(190)
Profit before taxation		1,597	3,139	753	2,129
Taxation	5	(221)	(22)	(221)	(22)
Profit for the period		1,376	3,117	532	2,107
Earnings per share					
– Basic (HK cents)	6	0.34	0.77	0.13	0.52

CONDENSED CONSOLIDATED BALANCE SHEET

The unaudited consolidated balance sheet as at 30 June 2005, together with the audited balance sheet as at 31 December 2004 were as follows:

	<i>Notes</i>	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Non-current assets			
Fixed assets		3,568	5,514
Investment securities		6,642	6,642
Intangible assets		14	14
Deferred taxation		246	246
Prepaid licence fees		5,460	5,460
		15,930	17,876
Current assets			
Inventories		5,712	7,502
Trade receivables	7	75,632	49,368
Deposits, prepayments and other receivables		3,499	8,965
Amount due from customers for contract works		31,510	31,600
Tax recoverable		744	–
Cash and bank balances		24,613	57,417
		141,710	154,852
Current liabilities			
Trust receipt loans		7,957	14,139
Bills payables		–	9,347
Trade payables	8	69,982	71,625
Other payables and accruals		6,948	3,566
Taxation payable		–	2,675
		84,887	101,352
Net current assets		56,823	53,500
Total assets less current liabilities		72,753	71,376
Financed by:			
Share Capital		4,063	4,063
Reserves		68,514	67,138
Shareholders' funds		72,577	71,201
Deferred tax liabilities		176	175
		72,753	71,376

CONDENSED CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY

The unaudited consolidated statement of movement in equity for the Half-Yearly Period, together with the unaudited comparative figures for the corresponding period in 2004 were as follows:

	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 arising on translation of overseas operations	–	–	44	–	44
Profit for the period	–	–	–	3,117	3,117
As at 30 June 2004	<u>41,573</u>	<u>11,157</u>	<u>137</u>	<u>25,958</u>	<u>78,825</u>
As at 1 January 2005	41,573	11,157	408	14,000	67,138
Exchange difference arising on translation of overseas operations	–	–	–	–	–
Profit for the period	–	–	–	1,376	1,376
As at 30 June 2005	<u>41,573</u>	<u>11,157</u>	<u>408</u>	<u>15,376</u>	<u>68,514</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

The unaudited consolidated cash flow statement for the Half-Yearly Period, together with the unaudited comparative figures for the corresponding period in 2004 were as follows:

Six months ended 30 June

	2005	2004
	HK\$'000	HK\$'000
Net cash used in operating activities	<u>(27,640)</u>	(48,659)
Net cash generated from/used in investing activities	<u>1,579</u>	(3,193)
Net cash used in/generated from in financing activities	<u>(6,751)</u>	24,347
Net decrease in cash and cash equivalents	(32,812)	(27,505)
Cash and cash equivalents at 1 January	57,417	68,448
Effect of foreign exchange rate changes	<u>8</u>	297
Cash and cash equivalents at 30 June	<u>24,613</u>	<u>41,240</u>
Analysis of cash and cash equivalents:		
Cash and bank balances	<u>24,613</u>	<u>41,240</u>

Notes:

1. Basis of presentation and accounting policies

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. These 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 (“HKICPA”) and are prepared under the historical cost convention.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standard and Hong Kong Financial Reporting standards (“HKFRS”) which are effective for accounting period beginning on or after 1 January, 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

2. Revenues and turnover

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

	Six months ended 30 June		Three months ended 30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Revenue from cost plus contracts	168,838	375,977	67,215	158,554
Technical consultancy income	–	677	–	677
	<u>168,838</u>	<u>376,654</u>	<u>67,215</u>	<u>159,231</u>
Other revenues				
Interest income	110	14	72	8
Others	758	45	379	40
	<u>868</u>	<u>59</u>	<u>451</u>	<u>48</u>
Total revenues	<u>169,706</u>	<u>376,713</u>	<u>67,666</u>	<u>159,279</u>

3. Segmental information

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

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

4. Operating profit

The operating profit is stated after charging the following:

	Six months ended 30 June		Three months ended 30 June	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost of inventories	156,662	353,710	63,702	147,302
Auditors' remuneration	210	225	105	113
Operating lease rental in respect of land and buildings	723	759	259	377
Depreciation	999	728	479	305
Staff costs, including directors' emoluments				
– salaries, allowance and welfare	6,931	13,208	2,329	6,781
– retirement benefits costs	38	153	17	67
	6,969	13,361	2,346	6,848

5. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the six months ended 30 June 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.

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

	Six months ended 30 June		Three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
The charge comprises:				
– Hong Kong Profits Tax	221	104	221	104
Deferred taxation relating to the origination and reversal of temporary differences	–	(82)	–	(82)
Taxation charges	<u>221</u>	<u>22</u>	<u>221</u>	<u>22</u>

6. Earnings per share

The calculation of basic earnings per share for the Half-Yearly Period and the Quarterly Period are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$1,376,000 and HK\$532,000 respectively, and the weighted average number of 406,251,500 shares. The basic earnings per share for the corresponding half-yearly period and quarterly period in 2004 are based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$3,117,000 and HK\$2,107,000 respectively, and the weighted average number of 406,251,500 shares.

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

7. Trade receivables

Customers are generally granted with credit terms of 30 to 60 days. The ageing analysis of the trade receivables as at 30 June 2005 and 31 December 2004 were as follows:

	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	13,702	32,234
1 – 30 days	5,864	7,309
31 – 60 days	8,887	8,273
Over 60 days	47,179	1,552
	<u>75,632</u>	<u>49,368</u>

8. Trade payables

The ageing analysis of the trade payables as at 30 June 2005 and 31 December 2004 were as follows:

	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	4,270	20,762
1 – 30 days	2,380	15,251
31 – 30 days	8,453	22,153
Over 60 days	54,879	13,459
	<u>69,982</u>	<u>71,625</u>

9. Commitments under operating leases

As at 30 June 2005 and 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30 June	31 December
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than 1 year	<u>219</u>	<u>1,034</u>

INTERIM DIVIDENDS

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

The Group has not declared any dividends for the corresponding half-yearly period and quarterly period in 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

For the six months ended 30 June 2005, turnover of the Group decreased by approximately 55.17% to around HK\$168,838,000 (2004: HK\$376,654,000). The decline in turnover was largely the result of the Group's strategic move taken with an aim to further consolidate business activities and brazen out the increasingly competitive mobile phone market conditions.

During the period under review, the Group recorded a profit of around HK\$1,376,000 (2004: HK\$3,117,000), representing a decline of approximately 55.85%. Earnings per share was HK0.34 cents (2004: HK0.77 cents) for the period under review.

For the six months ended 30 June 2005, the Group continued to explore and expand sales network. Much effort has been contributed to the expansion of the PRC sales networks while the Group further worked on the consolidation of business and operational structure. During the period under review, the Group has achieved substantial saving in operating expenses from HK\$19,581,000 for the first half of 2004 to HK\$10,877,000 as a result of stringent overhead streamlining policies.

Development of innovative & quality product solutions for the market remains as the core business objective of the Group. By the second quarter of 2005, the Group launched various products with MP3 and high-performance pixels camera features. Prototype commercial launch of PDA phones has been completed during the period under review and production is scheduled to be completed by the third quarter of this year.

Looking ahead, the Group will introduce a brand new series of handsets with new features and functions in upcoming months to meet with the changing user demand. Built-in multifunctional features including MP3, MP4, high-performance pixels camera and card insertion data storage will inevitably be the prevalent trend for mobile phones for the second half of 2005. These add-on functionalities and solutions will be launched for users together with fashionable outlook designs of folder or sliding type cellular phones.

Mobile phones have been transformed into an essential tool for both visual and audio communications. Games, animations and videos are now basic functions of mobile phones where music and sound effects significantly strengthen the visual impact. Leveraging on this prevailing trend, the Group will further concentrate on R&D and provision of state-of-the-art visual and audio mobile phone solutions.

On 20 June 2005, the Group entered a Sale and Purchase Agreement to dispose the entire issued share capital (the "Disposal") of Quasar Communication Technology Korea Ltd. ("Quasar Korea"), a wholly owned subsidiary of the Group. The Disposal constitutes a very substantial disposal for the Group under the GEM Listing Rule and is subject to the approval by shareholders of the Group.

Upon the Disposal, key engineering personnel of Quasar Korea will remain and be relocated to the Group's operations in the PRC and help expand the existing PRC R&D team. The Group believes the Disposal is a very practical means to effectively reduce overhead costs while at the same time strengthen the R&D and production operations in the PRC.

Despite the fast-changing market conditions and rigorous competition, the Group has responded swiftly and thus was able to maintain our market position. In order to bring along greater returns for our shareholders, the Group will strive to further expand marketing channels and seek for more potential business opportunities.

Liquidity, Financial Resources and Gearing

The Group continued to finance its product solutions development and operation through internally generated fund. The Group maintained a healthy liquidity position with a current ratio of approximately 1.67 (2004: 1.56) and total cash on hand amounted to approximately HK\$24,613,000 (2004: HK\$41,240,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 30 June 2005, the gearing ratio based on total liabilities over total assets was approximately 53.85% (2004: 60%).

Capital Structure and Fluctuation in Exchange

During the period under review, sales & purchases of the Group were mainly transacted in US dollars and Hong Kong dollars. As at 30 June 2005, 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 30 June 2005, there was a total of 24 (2004: 73) full-time staff employed by the Group. The staff costs, including directors' remuneration, for the six months were approximately HK\$6,969,000 (2004: HK\$13,361,000). The total amount comprised salaries, wages and allowance, medical and insurance coverage, pension fund scheme and discretionary bonus. The 47.85% decrease was attributable to the streamlining activities and reorganisation.

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\$202,120,000 (2004: HK\$199,000,000) given to banks by the Company in respect of banking facilities available to certain wholly owned subsidiaries. As at 30 June 2005, the Group had commitment under operating lease amounting to approximately HK\$219,000 (2004: HK\$950,000) and there was no charges on any assets of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 June 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:

- 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 30 June 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”) (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	4.923%
Shenyin Wanguo Trading (H.K.) Limited (Note 4)	Beneficial owner	21,628,000	5.324%
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 shares 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 is deemed to be interested in all the shares registered in the name of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Limited.

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

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

SHARE OPTION SCHEME

As at 30 June 2005, no option has been granted or agreed to be granted by the Company under the share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 5.29 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 interim report for the six months ended 30 June 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save and except the following deviations from the code provisions set out in the Code on Corporate Governance Practice as contained in Appendix 15 to the GEM Listing Rules (the “CCGP”), the Company had, during the period under review, complied with the CCGP:

Code provisions set out in the CCGP	Reason for deviations
A.2 The Chairman and chief executive officer of the Company were performed by the same individual	The Company is still searching for suitable candidates to fulfill the responsibilities of the separate roles
B.1 Remuneration committee has not yet been set up by the Company	The Company is now in the progress of forming its remuneration committee and drafting its term of reference

The Board was also in the progress of assessing the effect of the implementation of the CCGP on the Company’s operation. Save as disclosed, the Company has met the code provisions set out in the CCGP throughout the six months ended 30 June 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, the Company had adopted a code of conduct regarding of dealings set out in Rules 5.46 to 5.68 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

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 announcement 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 August 2005