



# QUASAR Communication Technology Holdings Limited

(Stock Code: 8171)

CREATIVITY WITHOUT LIMIT

1<sup>ST</sup> QUARTERLY REPORT

2006

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

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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\$60,959,000 for the period ended 31 March 2006
- Achieved a net profit after tax of approximately HK\$2,199,000 and an earnings per share of HK0.54 cents for the period ended 31 March 2006

## CONDENSED CONSOLIDATED INCOME STATEMENT

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 2006, together with the unaudited comparative figures for the corresponding period in 2005, were as follows:

	<i>Notes</i>	<b>Three months ended 31 March</b>	
		<b>2006</b>	2005
		<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>60,959</b>	101,622
Cost of sales		<b>(55,650)</b>	(92,960)
Gross profit		<b>5,309</b>	8,662
Other revenue	2	<b>292</b>	417
Other operating expenses		<b>(2,692)</b>	(7,974)
Finance costs		<b>(710)</b>	(262)
Profit before tax		<b>2,199</b>	843
Tax	3	<b>–</b>	–
Profit for the period		<b>2,199</b>	843
Earnings per share			
– Basic (HK cents)	4	<b>0.54</b>	0.21

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 the Hong Kong Financial Reporting Standards (which also includes the Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for financial instruments, which have been measured at fair value.

### 2. Turnover and revenue

The principal activity of the Group was involved in sales and marketing of mobile appliance and its relevant parts solution. An analysis of other revenue for the period ended 31 March 2006, together with the comparative figures for the corresponding period in 2005, were as follows:

	<b>Three months ended 31 March</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other revenue		
Interest income	<b>119</b>	38
Others	<b>173</b>	379
	<u><b>292</b></u>	<u>417</u>

### 3. Tax

No provision for Hong Kong profits tax has been made for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil) as the Group did not generate any assessable profits in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No profits tax or income tax has been provided for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

**4. Earnings per share**

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the unaudited net profit of approximately HK\$2,199,000 (three months ended 31 March 2005: HK\$843,000) and the 406,251,500 ordinary shares in issue during the three months ended 31 March 2006 (three months ended 31 March 2005: 406,251,500).

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

**5. Post balance sheet event**

On 8 May 2006, the Company entered into a subscription agreement with a subscriber pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 81,200,000 shares in cash at HK\$0.09 per share.

The gross proceeds of the subscription is approximately HK\$7,308,000. The net proceeds of the subscription of approximately HK\$7,200,000 will be for the Group's general working capital.

The subscription is conditional upon the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the shares.

**6. Reserves**

	<b>Share premium</b>	<b>Capital reserve</b>	<b>Exchange reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
As at 1 January 2005	41,573	11,157	408	14,000	67,138
Exchanges realignment	–	–	(11)	–	(11)
Profit for the period	–	–	–	843	843
	<u>41,573</u>	<u>11,157</u>	<u>397</u>	<u>14,843</u>	<u>67,970</u>
As at 31 March 2005	<u>41,573</u>	<u>11,157</u>	<u>397</u>	<u>14,843</u>	<u>67,970</u>
As at 1 January 2006	41,573	11,157	–	19,727	72,457
Profit for the period	–	–	–	2,199	2,199
	<u>41,573</u>	<u>11,157</u>	<u>–</u>	<u>21,926</u>	<u>74,656</u>
As at 31 March 2006	<u>41,573</u>	<u>11,157</u>	<u>–</u>	<u>21,926</u>	<u>74,656</u>

## **INTERIM DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

## **BUSINESS REVIEW AND OUTLOOK**

Turnover of the Group for the period under review decreased from HK\$101,622,000 in 2005 to HK\$60,959,000, representing a drop of 40.01%. During the period, the Group recorded a profit of HK\$2,199,000, an increase of 160.85% as compared to HK\$843,000 for the same period of last year. Earnings per share was HK0.54 cents (2005: HK0.21 cents) for the period under review.

Despite the fact that the market has become more competitive, the decline in turnover was largely the result of the Group's strategic move taken with an aim to further consolidate business activities and tackle the increasingly competitive mobile phone market conditions. The Group was able to maintain stable gross margin through the provision of value-added production and quality assurance support to our customers. In addition, the Group's strategic restructuring of business activities and effective control of overhead costs has brought along positive impact to the Group's overall performance.

According to China Computerworld, the industry is now witnessing the beginning of a second blossoming with China's mobile phone market showing signs of recovery recently subsequent to the turmoil in 2004 and 2005. While local mobile phone manufacturers are transforming for the new era, sales volume of the industry increased drastically in the fourth quarter of 2005 and the first quarter of 2006. This encourages further expansion of all China mobile phone brands as a whole.

Under the Administrative Licensing Law of China (effective from 1 July 2005 onwards), a number of new mobile phone manufacturers were permitted to participate in the market. The increase in number of mobile handset vendors will trigger higher demand for our services and will also broaden customer base for the Group.

With continual growth of China's mobile phone market, demand for frequent launches of new models is intense. Manufacturers now rely substantially on mobile phone design companies so as to speed up the time-to-market process. While the Group is faced with direct competition from these local design companies, we are at the same time benefited from the growth in revenue as a result of business opportunities arising from more and more outsourcing activities.

Overall industry's demand on the low-end & multimedia mobile phones surged in 2005 and it is anticipated to grow continually in 2006. We will strive to provide more sophisticated featured products so as to satisfy rising consumer demand.

Although the mobile phone industry of China is consolidating quickly under the highly competitive market condition, the Group remains optimistic towards the development potential and market prospect of the industry. The Group will continue to attain potential business opportunities 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 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

**Long positions in ordinary shares**

<b>Name of director</b>	<b>Number of shares</b>	<b>Type of interest and capacity</b>	<b>Percentage of interests</b>
Chan Ka Wo	74,621,186	Corporate interest <i>(through holding the entire issued shares of Choice Media Investment Limited)</i>	18.37%
Ra Chang Ju	14,338,235	Corporate interest <i>(through holding the entire issued shares of Digit Success Investments Limited)</i>	3.53%
Ong Se Mon	55,536,000	Corporate and other <i>(through holding the entire issued shares of Pilot Choice Management Limited and Note 1)</i>	13.67%

*Note:*

- 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 0.61% of the issued share capital of PINE Technology. PINE Technology has 10.27% indirect interest in the Company.

Save as disclosed above, as at 31 March 2006, none of the directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.



## SUBSTANTIAL SHAREHOLDERS

At 31 March 2006, the persons who have interests in shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

### Long positions in ordinary shares

Name of shareholder	Capacity	Number of shares	Percentage of interests
Choice Media Investments Limited (Note 1)	Beneficial owner	74,621,186	18.37%
Pilot Choice Management Limited (Note 2)	Beneficial owner	55,536,000	13.67%
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%
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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 ordinary 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 Investments Limited. Mr. Chan Ka Wo legally and beneficially owns the entire issued share capital of Choice Media Investments Limited. Accordingly, Mr. Chan Ka Wo is deemed to be interested in all the share registered in the name of Choice Media Investments Limited.
2. The entire issued share capital of Pilot Choice Management Limited 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 Management Limited.
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.

Save as disclosed above, as at 31 March 2006, the Company has not been notified of any other person (other than a director or the chief executive of the Company) having an interest or short position in shares of Company representing 5% or more of the issued share capital of the Company.

**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.

**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.

## **SHARE OPTION SCHEME**

As at 31 March 2006, 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 purchased, sold or redeemed any of the Company's listed securities during the period under review.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the directors. All directors confirmed that they complied with the required standards as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period under review.

## **AUDIT COMMITTEE**

The Company established an audit committee (the "Committee") on 16 July 2002 in accordance with the requirements of the GEM Listing Rules. The Committee has three members comprising Mr. Lo Hang Fong, Mr. Li Meng Long and Mr. Choy Mun Kei.

The Committee has already reviewed the Group's unaudited first quarter report for the three months ended 31 March 2006.

## **DIRECTORS OF THE COMPANY**

As at the date of this report, executive directors of the Company are Mr. Chan Ka Wo, Mr. Ra Chang Ju and Mr. Ong Se Mon and the independent non-executive directors of the Company are Mr. Lo Hang Fong, Mr. Lee Meng Long and Mr. Choy Mun Kei.

By order of the Board  
**QUASAR Communication Technology Holdings Limited**  
**Chan Ka Wo**  
*Chairman*

Hong Kong, 12 May 2006