



QUASAR

Communication Technology Holdings Limited

(Stock Code: 8171)



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without
limit

Third 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

- Report a turnover of approximately HK\$150,519,000 for the period ended 30 September 2006
- Achieved a net profit after tax of approximately HK\$3,927,000 and a basic earnings per share for continuing operations of HK0.88 cents for the period ended 30 September 2006



CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of QUASAR Communication Technology Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) for the nine months and the three months (the “Quarterly Period”) ended 30 September 2006, together with the unaudited comparative amounts for the corresponding periods in 2005 were as follows:

	<i>Notes</i>	Nine months		Three months	
		ended 30 September		ended 30 September	
		2006	2005	2006	2005
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CONTINUING OPERATIONS					
REVENUE	2	150,519	181,431	50,555	43,870
Cost of sales		(138,119)	(172,056)	(46,486)	(41,982)
Gross profit		12,400	9,375	4,069	1,888
Other income	2	947	533	33	74
Other operating expenses		(7,102)	(6,523)	(2,446)	(3,609)
Finance costs		(2,018)	(678)	(665)	(108)
Profit/(loss) before tax		4,227	2,707	991	(1,755)
Tax	3	(300)	(191)	(64)	30
Profit/(loss) for the period from continuing operations		3,927	2,516	927	(1,725)
PROFIT/(LOSS) FROM DISCONTINUED OPERATION					
	4	–	(274)	–	2,591
Profit for the period		3,927	2,242	927	866

	<i>Notes</i>	Nine months		Three months	
		ended 30 September		ended 30 September	
		2006	2005	2006	2005
		HK\$	<i>HK\$</i>	HK\$	<i>HK\$</i>
EARNINGS/(LOSS) PER SHARE					
ATTRIBUTABLE TO					
ORDINARY EQUITY					
HOLDERS OF					
THE COMPANY					
Basic					
- For profit for the period	5	<u>0.88 cents</u>	0.55 cents	<u>0.19 cents</u>	<u>0.21 cents</u>
- For profit/(loss) from continuing operations	5	<u>0.88 cents</u>	0.62 cents	<u>0.19 cents</u>	<u>(0.42) cents</u>
Diluted					
- For profit for the period	5	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
- For profit/(loss) from continuing operations	5	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes:

1. BASIS OF PREPARATION 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.

The accounting policies adopted in preparing the unaudited consolidated results were in consistent with those applied for the audited annual financial report for the year ended 31 December 2005.

2. REVENUE AND OTHER INCOME

The principal activity of the Group was involved in sales and marketing of mobile appliance and its relevant parts solution. Revenue, which is also the Group's turnover, represents the value of services rendered during the period.

An analysis of revenue and other income is as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Rendering of services				
– Continuing operations	150,519	181,431	50,555	43,870
– Discontinued operation	–	30,800	–	(477)
	<u>150,519</u>	<u>212,231</u>	<u>50,555</u>	<u>43,393</u>
Other income				
Interest income	214	103	37	11
Others	733	430	(4)	63
	<u>947</u>	<u>533</u>	<u>33</u>	<u>74</u>

3. TAX

Hong Kong profits tax has been made for the nine months and three months ended 30 September 2006 (nine months and three months ended 30 September 2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 nine months and three months ended 30 September 2006 (nine months and three months ended 30 September 2005: Nil).

	Nine months ended 30 September		Three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Group				
Current – Hong Kong				
Charge/(credit) for the current period	<u>300</u>	<u>191</u>	<u>64</u>	<u>(30)</u>

4. DISCONTINUED OPERATION

On 17 October 2005, the shareholders of the Company approved the disposal of the entire issued share capital of Quasar Communication Technology Korea Ltd (“Quasar Korea”), a wholly owned subsidiary of the Company, which was completed on 19 October 2005. Quasar Korea is principally engaged in the development of software and solutions for mobile appliances in the Republic of Korea.

The revenue and profit/(loss) before and after tax of Quasar Korea for the period were presented below:

	Nine months ended 30 September		Three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	<u>-</u>	<u>30,800</u>	<u>-</u>	<u>(477)</u>
Profit/(loss) before and after tax	<u>-</u>	<u>(274)</u>	<u>-</u>	<u>2,591</u>

5. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the net profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

A diluted earnings/(loss) per share for the period has not been disclosed as no diluting events existed during the period.

The calculations of basic earnings/(loss) per share are based on:

	Nine months ended 30 September		Three months ended 30 September	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings				
Net profit attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation:				
From continuing operations	3,927	2,516	927	(1,725)
From discontinued operation	-	(274)	-	2,591
	<hr/>	<hr/>	<hr/>	<hr/>
Net profit attributable to ordinary equity holders of the Company	<u>3,927</u>	<u>2,242</u>	<u>927</u>	<u>866</u>

	Number of shares			
	Nine months ended 30 September		Three months ended 30 September	
	2006	2005	2006	2005
Shares				
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	<u>444,620,731</u>	<u>406,251,500</u>	<u>487,451,500</u>	<u>406,251,500</u>

6. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2005	41,573	11,157	408	14,000	67,138
Exchanges realignment	–	–	5	–	5
Profit for the period	–	–	–	2,242	2,242
As at 30 September 2005	<u>41,573</u>	<u>11,157</u>	<u>413</u>	<u>16,242</u>	<u>69,385</u>

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2006	41,573	11,157	–	19,727	72,457
Profit for the period	–	–	–	3,927	3,927
Issue of shares	6,496	–	–	–	6,496
Share issue expenses	(90)	–	–	–	(90)
As at 30 September 2006	<u>47,979</u>	<u>11,157</u>	<u>–</u>	<u>23,654</u>	<u>82,790</u>

7. POST BALANCE SHEET EVENT

On 9 October 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 39,000,000 shares in cash at HK\$0.10 per share.

The gross proceeds of the subscription is approximately HK\$3,900,000. The net proceeds of the subscription of approximately HK\$3,800,000 are used for the Group's general working capital.

The Company obtained approval from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the shares in respect of the subscription and that the subscription was completed on 1 November 2006 pursuant to the terms of the subscription agreement.

INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (nine months ended 30 September 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

For the three months ended 30 September 2006, turnover from continuing operations of the Group increased by approximately 15.24% to around HK\$50,555,000 (three months ended 30 September 2005: HK\$43,870,000). The upsurge in turnover was due to (i) increase in market demand; (ii) continuous renovation to product features catering for customers' needs; and (iii) a solid customer base established by the Group.

According to the Asia Times, the mobile phone market in the PRC may also have a double-digit growth of over 20% this year. By the end of September 2006, the number of mobile phone users in the PRC reached 443 million, representing an increase of 50 million compared with that at the beginning of 2006.

Based on the findings of a market analysis conducted by Sinocast, that there are three reasons attributable to the turnaround of Chinese mobile phone companies, including (i) significant reduction of operational costs; (ii) adjustment to product mix (including the trendy MP3 and MP4 mobile phones, smart phones with high profile and "extra-slim" features, etc.); and (iii) rise in gross profit margin when compared with that of last year. Indeed, the Group also adopted the above-mentioned strategies in the current year by integrating its operations and streamlining of its manpower in a bid to deliver customised products with more sophisticated features. These initiatives brought about a rise in gross profit margin when compared with that of last year, and are in line with the three key strategies adopted by the leading mobile phone operators in the PRC.

The Company entered into a subscription agreement with a new subscriber on 9 October 2006 and raised approximately HK\$3,800,000, which is used as the Group's general working capital. This fund-raising activity was completed on 1 November 2006. Leveraging on its adequate resources, the Group will explore any potential business opportunities and at the same time strengthen its existing core business.

Positive policies and measures adopted by the Telecom Management Bureau under the Ministry of Information Industry at the beginning of the year, the continual improving purchasing power in the PRC and the market niche with high development potential in the PRC rural markets are favourable factors for the mobile phone industry in the PRC. It is expected that the mobile phone industry will maintain a healthy and stable development during the year. We are confident that the industry is witnessing the second blossom of the China's mobile phone market. We are also confident that the Group is able to grasp every opportunity and strive to maximise returns to shareholders.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 September 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

Name of director	Number of shares	Type of interest and capacity	Percentage of interests
Ra Chang Ju	14,338,235	Corporate interest <i>(through holding the entire issued shares of Digit Success Investments Limited)</i>	2.94%
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>	11.39%

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 0.63% of the issued share capital of PINE Technology. PINE Technology has 10.27% indirect interest in the Company.

Save as disclosed above, as at 30 September 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 30 September 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
Shin Dong Hoon	Beneficial owner	81,200,000	16.66%
Choice Media Investments Limited ("Choice Media") (Note 1)	Beneficial owner	74,621,186	15.31%
Mr. Chan Ka Wo (Note 1)	Corporate interests	74,621,186	15.31%
Pilot Choice Management Limited (Note 2)	Beneficial owner	55,536,000	11.39%
i.Concept (Note 3)	Beneficial owner	41,740,196	8.56%
Pan Eagle Limited (Note 3)	Corporate interests	41,740,196	8.56%
Pine Technology (BVI) Limited (Note 3)	Corporate interests	41,740,196	8.56%
PINE Technology (Note 3)	Corporate interests	41,740,196	8.56%
Shenyin Wanguo Strategic Investments (H.K.) Limited (Note 4)	Beneficial owner	20,000,000	4.10%
Shenyin Wanguo Trading (H.K.) Limited (Note 4)	Beneficial owner	21,628,000	4.44%
Shenyin Wanguo (H.K.) Limited (Note 4)	Corporate interests	41,628,000	8.54%

Short positions in ordinary shares

Name of shareholder	Capacity	Number of shares	Percentage of interests
i.Concept	Beneficial owner	20,312,575	4.17%
Pan Eagle Limited	Corporate interests	20,312,575	4.17%
Pine Technology (BVI) Limited	Corporate interests	20,312,575	4.17%
PINE Technology	Corporate interests	20,312,575	4.17%

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 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 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.

Save as disclosed above, as at 30 September 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.

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 30 September 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.

BOARD PRACTICES AND PROCEDURES

The Company had complied throughout the period under review with 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.

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 quarterly report for the nine months ended 30 September 2006.

DIRECTORS OF THE COMPANY

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

By order of the Board

QUASAR Communication Technology Holdings Limited

Chan Ka Wo
Chairman

Hong Kong, 13 November 2006