



(Stock Code: 8171)

*Creativity without Limit*



**QUASAR**

Communication Technology Holdings Limited

Third Quarterly Report 2008

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 trade on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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\$68,335,000 for the period ended 30 September 2008
- Incurred a net loss after tax of approximately HK\$24,670,000 and a basic loss per share of HK4.21 cents for the period ended 30 September 2008

## CONSOLIDATED INCOME STATEMENT

The Board (the "Board") of directors of QUASAR Communication Technology Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the nine months and the three months ended 30 September 2008, together with the unaudited comparative amounts for the corresponding periods in 2007, as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
REVENUE	2	68,335	230,685	16,815	57,927
Cost of sales		(66,291)	(211,547)	16,269	(52,573)
Gross profit/(loss)		2,044	19,138	546	5,354
Other income and gains	2	194	672	2	104
Administrative and other operating expenses		(23,597)	(8,335)	(2,880)	(2,148)
Finance costs		(758)	(1,111)	(240)	(186)
Other impairment losses		(2,536)	-	(845)	-
Profit/(loss) before tax		(24,653)	10,364	(3,417)	3,124
Tax	3	(17)	(900)	-	(100)
Profit/(loss) for the period		(24,670)	9,464	(3,417)	3,024
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>					
Basic	4	(4.21) cents	1.80 cents	(0.58) cents	0.57 cents
Diluted	4	N/A	N/A	N/A	N/A

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 report for the year ended 31 December 2007.

**2. REVENUE, OTHER INCOME AND GAINS**

The principal activity of the Group was involved in sales and marketing of mobile appliance and its relevant parts solution in Mainland China. Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
Revenue				
Sales of goods	<b>68,335</b>	230,685	<b>16,815</b>	57,927
Other income				
Bank interest income	147	287	–	86
Exchange gains, net	3	–	–	–
Others	44	385	2	18
	<b>194</b>	672	<b>2</b>	104

## 3. TAX

No profits tax or income tax has been provided for the period as the Group did not generate any assessable profits. Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the nine months period ended 30 September 2007. 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.

	Nine months ended 30 September		Three months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Current tax – Hong Kong Charge for the period	–	900	–	100
Deferred tax Charges for the period	17	–	–	–
	17	900	–	100

## 4. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the period attributable to 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 the share options and warrants outstanding during the period had an anti-dilutive effect on basic earnings/(loss) per share. A diluted earnings per share for the nine months ended 30 September 2007 has not been disclosed as no diluting events existed during that period.

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

	Nine months ended 30 September		Three months ended 30 September	
	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited	2008 HK\$'000 Unaudited	2007 HK\$'000 Unaudited
Profit/(loss) attributable to equity holders of the Company, used in the basic earnings/(loss) per share calculation	(24,670)	9,464	(3,417)	3,024

	Number of shares		Number of shares	
	Nine months ended 30 September		Three months ended 30 September	
	2008	2007	2008	2007
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	586,451,500	526,451,500	586,451,500	526,451,500

## 5. RESERVES

	Share premium <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(Note 1)</i>	(Accumulated losses)/ Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Unaudited						
At 1 January 2008	68,379	2,060	-	11,157	17,752	99,348
Loss for the period	-	-	-	-	(24,670)	(24,670)
Equity-settled share option arrangements	-	-	7,442	-	-	7,442
At 30 September 2008	<u>68,379</u>	<u>2,060</u>	<u>7,442</u>	<u>11,157</u>	<u>(6,918)</u>	<u>82,120</u>
Unaudited						
At 1 January 2007	51,579	-	-	11,157	25,951	88,687
Profit for the period	-	-	-	-	9,464	9,464
Issue of warrants	-	1,160	-	-	-	1,160
At 30 September 2007	<u>51,579</u>	<u>1,160</u>	<u>-</u>	<u>1,157</u>	<u>35,415</u>	<u>99,311</u>

*Note:*

- 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.

## **INTERIM DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW AND OUTLOOK**

For the nine months ended 30 September 2008, the Group recorded a turnover of approximately HK\$68,335,000 (nine months ended 30 September 2007: HK\$230,685,000), representing a decrease of 70%. The decrease in turnover was due to the fierce competition in the current business operations of the Group.

For the nine months ended 30 September 2008, the Group recorded a loss of approximately HK\$24,670,000 (nine months ended 30 September 2007: profit of HK\$9,464,000). The loss incurred in the current period was mainly due to the drop in the profit margin of the current business operations, compensation paid to customers and the equity-settled share option expenses in relation to the share option granted in the current period.

The Group is principally engaged in sales and marketing of mobile phone appliance and the relevant parts solution in Mainland China market. As set out in the annual report of the Company for the year ended 31 December 2007, as there is fierce competition in the current business operations of the Group, the Board has been seeking opportunities to increase the business scope and the foundation of the Group. In view of the intense competition and falling profit margin, the Company is actively seeking opportunities to other business with higher return than the existing business.

We will strive to maintain our market share in the current business operations at the same time to explore new businesses, such as media and advertisement publication, civil and military dual-use optoelectronic and consumer electronic products, so as to bring a reasonable return to our shareholders.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARE CAPITAL

As at 30 September 2008, 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:

### SHARE OPTIONS

Name of Director	Date of grant	Exercise period	Capacity	Exercise price per share HK\$	No. of underlying share of the Company comprised the Options outstanding as at 30 September 2008	Approximate percentage of interest
Xiang Xin	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficial owner	0.28	5,000,000	0.85%
Wong Chak Keung	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficial owner	0.28	5,000,000	0.85%
Cho Hui Jae	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficial owner	0.28	5,000,000	0.85%
Sze Lin Tang	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficial owner	0.28	2,500,000	0.43%
Leung Wing Kin	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficial owner	0.28	2,500,000	0.43%
Zhang Zhan Liang	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficial owner	0.28	2,500,000	0.43%

Save as disclosed above, as at 30 September 2008, 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 2008, 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
Korea Technology Investment Corporation	Beneficial owner	37,000,000	6.31%
Jo Won Seob	Beneficial owner	81,200,000	13.85%
Shenyin Wanguo Strategic Investments (H.K.) Limited (note 1)	Beneficial owner	20,000,000	3.41%
Shenyin Wanguo Trading (H.K.) Ltd. (note 1)	Beneficial owner	20,900,000	3.56%
Shenyin Wanguo (H.K.) Limited (note 1)	Corporate interests	40,900,000	6.97%
Pretty Profit Enterprises Ltd.	Beneficial owner	60,000,000	10.23%
Cheung Chun Yip (note 2)	Corporate interests	60,000,000	10.23%

*Notes:*

1. The entire issued share capital of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Ltd. 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.) Ltd..
2. Pretty Profit Enterprises Ltd is a private company wholly and beneficially owned by Ms. Cheung Chun Yip.

Save as disclosed above, as at 30 September 2008, the Company has not been notified of any person (other than a director or the chief executive of the Company) having an interest or short position in shares of the 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**

Pursuant to a written resolution of all the shareholders of the Company passed on 16 July 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentive 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, and any of its subsidiaries, to subscribe for shares in the Company.

On 9 April 2008, the Company granted a total of 40,000,000 share options to the directors and eligible employees under the Scheme of the Company. As at 30 September 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 40,000,000, representing 6.82% of the shares of the Company in issue.

Details of the options granted under the Scheme and outstanding at 30 September 2008 are as follows:

Grantee	Date of grant	Option period	Outstanding as at 1 January 2008	Granted during the period	Exercise during the period	Outstanding as at 30 September 2008	Exercise price per share option HK\$
Directors	9 Apr 2008	9 Apr 2008 - 8 Apr 2013	-	22,500,000	-	22,500,000	0.28
Employees	9 Apr 2008	9 Apr 2008 - 8 Apr 2013	-	17,500,000	-	17,500,000	0.28
			-	40,000,000	-	40,000,000	

No relevant share options had been exercised, cancelled or lapsed during the nine months ended 30 September 2008.

## 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the period under review, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 of the GEM Listing Rules, except that the Company has no fixed terms of appointment for independent non-executive directors. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Articles of Association. Such practice deviates from the provision A.4.1 of the CG Code which requires that non-executive directors be appointed for a specific term. The Board has discussed and concluded the current practice of appointing independent non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

## **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 on 16 July 2002 in accordance with the requirements of the GEM Listing Rules. The audit committee has three members comprising Mr. Sze Lin Tang, Mr. Leung Wing Kin and Mr. Zhang Zhan Liang.

The Group's unaudited consolidated results for the nine months ended 30 September 2008 have been reviewed by the audit committee, which was of the opinion that such results have complied with the applicable accounting standards and that adequate disclosures have been made.

## **DIRECTORS OF THE COMPANY**

As at the date of this report, the executive directors of the Company are Mr. Xiang Xin, Mr. Im Kai Chuen Stephen, Mr. Wong Chak Keung, Mr. Yang Xiao Ming and Mr. Cho Hui Jae and the independent non-executive directors of the Company are Mr. Sze Lin Tang, Mr. Leung Wing Kin and Mr. Zhang Zhan Liang.

By order of the Board

**QUASAR Communication Technology Holdings Limited**

**XIANG XIN**

*Chairman*

Hong Kong, 14 November 2008