



QUASAR

Communication Technology Holdings Limited

First Quarterly Report **2007**



Creativity without Limit

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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\$83,361,000 for the period ended 31 March 2007
- Achieved a net profit after tax of approximately HK\$4,726,000 and an earnings per share of HK0.90 cents for the period ended 31 March 2007

CONSOLIDATED INCOME STATEMENT

The board (the “Board”) of directors (the “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 three months ended 31 March 2007, together with the unaudited comparative figures for the corresponding period in 2006, as follows:

	Notes	Three months ended 31 March	
		2007 HK\$'000	2006 HK\$'000
Turnover	2	83,361	60,959
Cost of sales		(75,969)	(55,650)
Gross profit		7,392	5,309
Other revenue	2	91	292
Other operating expenses		(2,312)	(2,692)
Finance costs		(445)	(710)
Profit before tax		4,726	2,199
Tax	3	–	–
Profit for the period		4,726	2,199
Earnings per share			
– Basic (HK cents)	4	0.90	0.54

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 Group's unaudited consolidated results for the three months ended 31 March 2007 have been prepared in accordance with Chapter 18 of the GEM Listing Rules.

The Group's unaudited consolidated results for the three months ended 31 March 2007 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. The accounting policies adopted in preparing these first quarterly results are consistent with those used in the Company's annual audited consolidated financial statements for the year ended 31 December 2006. The first quarterly results are unaudited but have been reviewed by the Company's audit committee.

2. Turnover and revenue

The principal activity of the Group was involved in sales and marketing of mobile appliance and its relevant parts solution mainly in Mainland China. An analysis of other revenue for the period ended 31 March 2007, together with the comparative figures for the corresponding period in 2006, were as follows:

	Three months ended 31 March	
	2007	2006
	HK\$'000	HK\$'000
Other revenue		
Interest income	91	119
Others	–	173
	91	292
	91	292

3. Tax

No provision for Hong Kong profits tax has been made for the three months ended 31 March 2007 (three months ended 31 March 2006: 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 2007 (three months ended 31 March 2006: Nil).

4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2007 is based on the unaudited net profit of approximately HK\$4,726,000 (three months ended 31 March 2006: HK\$2,199,000) and the 526,451,500 ordinary shares in issue during the three months ended 31 March 2007 (three months ended 31 March 2006: 406,251,500).

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

5. Reserves

	Share premium	Capital reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2006	41,573	11,157	19,727	72,457
Profit for the period	–	–	2,199	2,199
As at 31 March 2006	<u>41,573</u>	<u>11,157</u>	<u>21,926</u>	<u>74,656</u>
As at 1 January 2007	51,579	11,157	25,951	88,687
Profit for the period	–	–	4,726	4,726
As at 31 March 2007	<u>51,579</u>	<u>11,157</u>	<u>30,677</u>	<u>93,413</u>

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period ended 31 March 2007, turnover of the Group increased by approximately 36.75% to around HK\$83,361,000 (period ended 31 March 2006: HK\$60,959,000). The upsurge in turnover was due to (i) increase in market demand driven by the rural markets in the People's Republic of China (the "PRC"); (ii) continuous renovation of product features catering for young adults with strong purchasing power; and (iii) a solid customer base established by the Group.

By the end of March 2007, the total number of mobile phone subscribers in the PRC reached 481 million, representing an increase of 20 million compared with the amounts at the beginning of 2007. It is general believed that the mobile phone market in the PRC still has a double-digit growth approximately 14% in 2007.

Diversified flashing selling points covering music, video, high pixel camera, smart, ultra thin and slide cover mobile phones led the popular trend in the market in 2006. The Group still expects that this market trend will continue in the near future. As such, the Group will continue to strengthen its unique strength in making ongoing innovative product features catering for customers' needs so as to maintain our competitiveness in the market.

China's Ministry of Information Industry has just worked out their layout for the Eleventh 5-year Period which emphasized heavily on 3G development. Minister of Information Industry of the PRC, Mr. Wang Xudong, also said that the telecom reforms in 2007 will depend on the opportunities developing within the 3G industry. As such, it is expected that 3G mobile phones are another main stream in the PRC mobile phone market in the near future. In order to make preparations for the new 3G era in China in the near future, the Group entered into sale and purchase agreements with Korea Technology Investment Corporation ("Korea Technology") and KTIC M&A, Inc ("KTIC") on 29 December 2006 and re-entered into supplemental agreements with Korea Technology and KTIC on 30 March 2007, to acquire 38.29% equity interest in KBT Mobile Co., Limited, a South Korean company which has the capability to develop 3G mobile appliances. The Group will then form a business alliance through the proposed acquisition to capitalise any potential business opportunity in the near future. The whole transaction is expected to be completed by the end of June 2007.

The telecommunications law is expected to create an improved environment and harmonic society for fair competition and operations to attract both overseas and local investments in the telecommunication industry. As such, it is generally believed that the PRC general environment of mobile phone industry will remain very healthy throughout 2007. The Group will continue to attain potential business opportunities while at the same time strengthen our competitive advantages so as to bring in more values for our shareholders.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 31 March 2007, 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) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, 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
Chan Ka Wo	74,621,186	Corporate interest <i>(through holding the entire issued share capital of Choice Media Investment Limited)</i>	14.17%
Ra Chang Ju	14,338,235	Corporate interest <i>(through holding the entire issued share capital of Digit Success Investments Limited)</i>	2.72%
Ong Se Mon <i>(Note 1)</i>	55,536,000	Corporate and other <i>(through holding the entire issued share capital of Pilot Choice Management Limited)</i>	10.55%

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 0.60% of the issued share capital of PINE Technology. PINE Technology has 7.93% indirect interest in the Company.

Save as disclosed above, as at 31 March 2007, 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) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, 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 2007, 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	15.42%
Choice Media Investments Limited (Note 1)	Beneficial owner	74,621,186	14.17%
Pilot Choice Management Limited (Note 2)	Beneficial owner	55,536,000	10.55%
i.Concept (Note 3)	Beneficial owner	41,740,196	7.93%
Pan Eagle Limited (Note 3)	Corporate interests	41,740,196	7.93%
Pine Technology (BVI) Limited (Note 3)	Corporate interests	41,740,196	7.93%
PINE Technology (Note 3)	Corporate interests	41,740,196	7.93%
KTIC (Note 4)	Beneficial owner	39,000,000	7.41%
Shenyin Wanguo Strategic Investments (H.K.) Limited (Note 5)	Beneficial owner	20,000,000	3.80%
Shenyin Wanguo Trading (H.K.) Limited (Note 5)	Beneficial owner	21,628,000	4.11%
Shenyin Wanguo (H.K.) Limited (Note 5)	Corporate interests	41,628,000	7.91%

Short positions in ordinary shares

Name of shareholder	Capacity	Number of shares	Percentage of interests
i.Concept	Beneficial owner	20,312,575	3.86%
Pan Eagle Limited	Corporate interests	20,312,575	3.86%
Pine Technology (BVI) Limited	Corporate interests	20,312,575	3.86%
PINE Technology	Corporate interests	20,312,575	3.86%

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 issued share capital of KTIC is owned as to approximately 45.05% by Korea Technology.
5. 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 2007, 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 period under review.

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 2007, 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.

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 Bye-laws. 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. Lo Hang Fong, Mr. Li Meng Long and Mr. Choy Mun Kei.

The Group's unaudited consolidated results for the three months ended 31 March 2007 have been reviewed by the audit committee, which was of the opinion that such results have complied with the applicable HKFRSs and that adequate disclosures have been made.

DIRECTORS OF THE COMPANY

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

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

Hong Kong, 14 May 2007