# QUASAR COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
# 思拓通訊科技控股有限公司*

*(incorporated in the Cayman Islands with limited liability)*
(Stock Code: 8171)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**



*This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

* *for identification purposes only*

**HIGHLIGHTS**

- Turnover for the year ended 31 December 2006 amounted to HK$250,523,000
- Net profit attributable to shareholders is HK$6,224,000 with basic earnings per share of HK1.35 cents

## RESULTS

The board (the "Board") of directors (the "Directors") of QUASAR Communication Technology Holdings Limited (the "Company") are pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006, together the audited comparative figures for the corresponding year in 2005 as follows:

## CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| REVENUE | 5 | **250,523** | 273,760 |
| Cost of sales | | **(230,725)** | (254,889) |
| Gross profit | | **19,798** | 18,871 |
| Other income and gains | 5 | **1,885** | 4,481 |
| Research and development costs | | **–** | (168) |
| Depreciation of property, plant and equipment | | **(103)** | (203) |
| Staff costs | | **(5,287)** | (5,008) |
| Other expenses | | **(4,570)** | (6,991) |
| Impairment loss on available-for-sale investments | | **(2,300)** | (3,000) |
| Finance costs | | **(2,397)** | (906) |
| PROFIT BEFORE TAXATION | 7 | **7,026** | 7,076 |
| Taxation | 8 | **(802)** | (638) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | **6,224** | 6,438 |
| LOSS FROM DISCONTINUED OPERATION | 9 | **–** | (711) |
| | | **6,224** | 5,727 |

**CONSOLIDATED INCOME STATEMENT**
*Year ended 31 December 2006*

| | Notes | 2006 HK$ | 2005 HK$ |
|---|---|---|---|
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| Basic | | | |
| – For profit for the year | 10 | **1.35 cents** | 1.41 cents |
| – For profit from continuing operations | 10 | **1.35 cents** | 1.58 cents |
| Diluted | | | |
| – For profit for the year | 10 | **N/A** | N/A |
| – For profit from continuing operations | 10 | **N/A** | N/A |

**CONSOLIDATED BALANCE SHEET**
*31 December 2006*

| | Notes | **2006** *HK$'000* | 2005 *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **159** | 234 |
| Other intangible assets | | **–** | – |
| Available-for-sale investments | | **1,342** | 3,642 |
| Deferred tax assets | | **246** | 246 |
| Prepaid licence fees | | **–** | 4,368 |
| Total non-current assets | | **1,747** | 8,490 |
| CURRENT ASSETS | | | |
| Inventories | | **5,325** | 9,875 |
| Contract works in progress | | **18,899** | 20,595 |
| Trade receivables | *11* | **53,275** | 46,487 |
| Prepayments, deposits and other receivables | | **16,539** | 11,742 |
| Non-current assets held for sale | | **3,822** | – |
| Cash and bank balances | | **23,571** | 62,602 |
| Total current assets | | **121,431** | 151,301 |
| CURRENT LIABILITIES | | | |
| Trade payables | *12* | **1,934** | 7,810 |
| Bill payables | | **4,544** | 15,639 |
| Trust receipt loans | | **12,911** | 54,854 |
| Other payables and accruals | | **5,165** | 979 |
| Tax payable | | **4,668** | 3,965 |
| Total current liabilities | | **29,222** | 83,247 |
| NET CURRENT ASSETS | | **92,209** | 68,054 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **93,956** | 76,544 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | **4** | 24 |
| Net assets | | **93,952** | 76,520 |
| EQUITY | | | |
| Issued capital | *13* | **5,265** | 4,063 |
| Reserves | | **88,687** | 72,457 |
| Equity attributable to equity holders of the Company | | **93,952** | 76,520 |

## CONSOLIDATED STATEMENT OF CHANGES OF EQUITY

*Year ended 31 December 2006*

| | Equity attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Issued capital** | **Share premium** | **Exchange reserve** | **Capital reserve** | **Retained profits** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* *(Note 1)* | *HK$'000* | *HK$'000* |
| At 1 January 2005 | 4,063 | 41,573 | 408 | 11,157 | 14,000 | 71,201 |
| Profit for the year | – | – | – | – | 5,727 | 5,727 |
| Exchange realignment | – | – | (10) | – | – | (10) |
| Disposal of a subsidiary | – | – | (398) | – | – | (398) |
| At 31 December 2005 and at 1 January 2006 | 4,063 | 41,573 | – | 11,157 | 19,727 | 76,520 |
| Profit for the year | – | – | – | – | 6,224 | 6,224 |
| Issue of shares | 1,202 | 10,006 | – | – | – | 11,208 |
| At 31 December 2006 | 5,265 | 51,579 | – | 11,157 | 25,951 | 93,952 |

*Note:*

1. 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.

*Notes:*

## 1. CORPORATE INFORMATION

QUASAR Communication Technology Holdings Limited is a limited liability company incorporated in Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands.

During the year, the Group was involved in sales and marketing of mobile appliance and its relevant parts solution in Mainland China.

## 2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure acquirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

## 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 27 Amendment | Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005 |
| HKAS 39 and HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |

The principal changes in accounting policies are as follows:

**(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

**(b) HKAS 27 Consolidated and Separate Financial Statements**

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements and this change has had no impact on these financial statements as at 31 December 2006 or 31 December 2005.

**(c) HKAS 39 and HKFRS4 Financial Guarantee Contracts**

In the current year, the Group has adopted the amendments to HKAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts" which is effective for annual period beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

*The Company acts as the issuer of financial guarantee contracts*

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the adoption of these amendments, a financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

In connection with a financial guarantee granted to certain banks over the repayment under trust receipt loans and certain factoring by subsidiaries, this change in accounting policy has had no material effect on the Group's amounts reported for the current and prior accounting periods.

**(d) Amendment for the Fair Value Option**

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

**(e) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease**

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## 4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies* |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 and 1 November 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 5. REVENUE, OTHER INCOME AND GAINS

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | | |
| Rendering of services | | |
| – Continuing operations | **250,523** | 273,760 |
| – Discontinued operation | **–** | 31,283 |
| | **250,523** | 305,043 |
| Other income | | |
| Bank interest income | **291** | 247 |
| Others | **1,511** | 1,245 |
| | **1,802** | 1,492 |
| Gains | | |
| Exchange gain, net | **83** | – |
| Gain on disposal of a subsidiary | **–** | 2,989 |
| | **1,885** | 4,481 |

## 6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as over 90% of the Group's revenue and assets relate to the business of provision of cellular phone solutions to the in Mainland China market.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 7. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging/(crediting):

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of sales | **230,725** | 254,889 |
| Amortisation of prepaid licence fees * | **546** | 1,092 |
| Amortisation of intangible assets | **–** | 14 |
| Minimum lease payments under operating leases in respect of land and buildings | **545** | 459 |
| Auditors' remuneration | **320** | 300 |
| Employee benefits expense (including directors' remuneration): | | |
| Wages and salaries | **4,987** | 4,777 |
| Others | **196** | 142 |
| Pension scheme – defined contributions | **104** | 123 |
| Less: Forfeited contributions | **–** | (34) |
| Net pension scheme contributions ** | **104** | 89 |
| | **5,287** | 5,008 |
| Impairment of available-for-sale investments | **2,300** | 3,000 |
| Impairment of trade receivables | **302** | 605 |

* The amortisation of prepaid licence fees for the year are included in "Cost of sales" on the face of the consolidated income statement.

** At 31 December 2006, the Group did not have forfeited contributions (2005: HK$34,000) available to reduce its contributions to the pension schemes in future years.

## 8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | **822** | 638 |
| Deferred | **(20)** | – |
| | **802** | 638 |

A reconciliation of the tax expense applicable to profit before taxation using the statutory rates for the countries/ jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* |
| Profit before taxation (including loss for discontinued operation) | **7,026** | | 6,365 | |
| Tax at the statutory tax rate | **1,230** | **17.5** | 1,114 | 17.5 |
| Income not subject to tax | **(760)** | **(10.8)** | (94) | (1.5) |
| Expenses not deductible for tax | **737** | **10.4** | 106 | 1.7 |
| Tax losses utilised | **(501)** | **(7.1)** | (697) | (11.0) |
| Tax losses not recognised | **147** | **2.1** | 184 | 2.9 |
| Others | **(51)** | **(0.7)** | 25 | 0.4 |
| Tax charge at effective rate | **802** | **11.4** | 638 | 10.0 |
| Tax charge attributable to discontinued operation | **–** | | – | |
| | **802** | | 638 | |

## 9. 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 results of Quasar Korea are as follow:

| | Period from 1 January 2005 to 19 October 2005 *HK$'000* |
|---|---|
| REVENUE | |
| – External sales | 31,283 |
| – Intercompany sales | 451 |
| | 31,734 |
| Cost of sales | (25,737) |
| Gross profit | 5,997 |
| Expenses | (6,708) |
| Loss before tax | (711) |
| Tax | – |
| Loss for the period | (711) |

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

A diluted earnings per share amount for the years ended 31 December 2006 and 2005 has not been disclosed as no diluting events existed during the years.

The calculations of basic and diluted earnings per share are based on:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation: | | |
| From continuing operations | **6,224** | 6,438 |
| From discontinued operation | **–** | (711) |
| Profit attributable to ordinary equity holders of the Company | **6,224** | 5,727 |

| | **Number of shares** | |
|---|---|---|
| | **2006** | 2005 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **461,934,240** | 406,251,500 |

## 11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

| | **Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **27,205** | 11,955 |
| 1 to 2 months | **9,622** | 15,099 |
| 2 to 3 months | **2,274** | 14,171 |
| Over 3 months | **14,174** | 5,262 |
| | **53,275** | 46,487 |

## 12. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

| | **Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **–** | 6,004 |
| 1 to 2 months | **–** | 839 |
| 2 to 3 months | **–** | 290 |
| Over 3 months | **1,934** | 677 |
| | **1,934** | 7,810 |

The trade payables are non-interest bearing and are normally settled on 60-day terms.

## 13. SHARE CAPITAL

| **Shares** | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.01 each | **10,000** | 10,000 |
| Issued and fully paid: | | |
| 526,451,500 (2005: 406,251,500) ordinary shares of HK$0.01 each | **5,265** | 4,063 |

During the year, 81,200,000 shares of HK$0.01 each and 39,000,000 shares of HK$0.01 each were issued for cash at a subscription price of HK$0.09 per share and HK$0.1 per share on 24 May 2006 and 1 November 2006, respectively, for a total cash consideration, before expenses, of HK$11,208,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

| | **Number of shares in issue** | **Issued share capital** | **Share premium account** | **Total** |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2005 and 1 January 2006 | 406,251,500 | 4,063 | 41,573 | 45,636 |
| Issue of shares: | | | | |
| On 24 May 2006 | 81,200,000 | 812 | 6,496 | 7,308 |
| On 1 November 2006 | 39,000,000 | 390 | 3,510 | 3,900 |
| | 120,200,000 | 1,202 | 10,006 | 11,208 |
| At 31 December 2006 | 526,451,500 | 5,265 | 51,579 | 56,844 |

## DIVIDEND

The Directors did not recommend a final dividend for the year ended 31 December 2006 (2005: Nil).

## CHAIRMAN'S STATEMENT

2006 marks a productive year for the PRC mobile phone industry.

Both the improving purchasing power of residents and the appreciation of RMB in the PRC are, among others, general economic factors driving the growth of the PRC mobile phone industry. Based on the estimates by eMarketer, around 25% of mobile phone subscribers in China fall within 20 – 24 age range. Young adults of this age group have strong purchasing power and thus always look for smartphones featuring high profile and "extra-slim" size as they switch from conventional handsets. To accommodate the purchasing patterns and demands from these young adults, foreign mobile phone manufacturers have invested heavily in mobile phone design and multimedia functions for shortening the product life cycle of smartphones, complemented with a competitive pricing strategy aimed at addressing the particular needs of this market niche. It is expected that domestic mobile phone manufacturers will follow the same move as well to maintain their market shares.

Minister of Information Industry of the PRC, Mr. Wang Xudong said that China remains optimistic about the launch of 3G services prior to the Olympic Games to be held in Beijing in 2008. It is therefore expected that China's telecommunication regulators will take various measures to ensure the smooth launch of the 3G project in China in 2007. According to Analysys International, investments in major 3G equipment will total RMB310.5 billion in the next six years. Both foreign mobile phone giants and major domestic mobile phone manufacturers have committed to make huge investments in 3G development for the preparations of the coming 3G era in China. It is believed that the acceleration of the 3G development in China will be a market focus in the near future.

The growth in the number of mobile phone subscribers in big cities, such as Beijing, Shenzhen and Guangzhou, starts to slow down, given the very high penetration rate in these big cities as compared to the extremely low penetration rate in rural areas. China's rural market is much different from that in the big cities of western countries in the way that one fixed-line phone or mobile phone is usually shared among homes in China's rural villages. In view of this shortage of communication means, the "Cuncun Tong Project", aimed at connecting every rural village through fixed telephone lines and mobile phones, has been launched as part of the telecommunication development programme under China's 11th Five-Year Plan. Two domestic telecommunication operators, China Mobile and China Unicom, have capitalised on this opportunity by building up extensive marketing and distribution channels in rural areas, and satisfactory results have been achieved initially.

In summary, the mobile phone industry in the PRC remains competitive and dynamic, given different consumer preferences and behaviour in different geographic locations. As the soon-to-be-out telecommunications law is expected to create an improved environment for fair competition and operations, it is generally believed that the PRC mobile phone industry will remain very optimistic in 2007 and be able to maintain a double-digit growth in the near future. We are therefore very confident that the PRC mobile phone industry will flourish again during another prosperity period of the industry. We are also confident that the Group will be able to capitalise on every opportunity that may arise from time to time and strive to maximise returns for our shareholders.

**FINANCIAL REVIEW**

During the year ended 31 December 2006, the Group recorded a turnover from continuing operations of approximately HK$250,523,000 (2005: HK$273,760,000), representing a decrease of 8.49%. Despite of this, we have achieved a revenue of HK$150,559,000 from the last two quarters of the year, representing an increase of 10.54% over the same period of last year (2005: HK$136,199,000). The decline in turnover from continuing operations in the first two quarters was mainly attributable to (i) the ongoing consolidation of the Group's business in the PRC in the current year and (ii) intense competition in the PRC mobile phone industry.

During the year ended 31 December 2006, the Group recorded a profit from continuing operations of approximately HK$6,224,000 (2005: HK$6,438,000), representing a decrease of 3.32%. The decrease was resulted from a gain on disposal of a subsidiary of HK$2,989,000 recorded in last year which was a one off exceptional item. Taking such effect into account, the adjusted profit from continuing operations for the year ended 31 December 2005 amounted to HK$3,449,000. An increase of 80.46% was noted in the adjusted profit from continuing operations. The upsurge in the profit was mainly due to (i) the firm customer base of the Group and (ii) effective cost control. The persistent rise in profit for the year in the two consecutive periods suggest that the Group is already back to the right track and will strive to maintain the growth momentum.

In spite of the intense competition in the PRC mobile phone industry, the Group was still able to uplift its gross profit ratio through continuous offer of quality mobile phone solutions and after-sales services to our customers, and change of the product mix by the sale of parts and components with a higher profit margin.

Upon completion of the disposal of Quasar Communication Technology Korea Ltd. ("Quasar Korea") on 17 October 2005, the Group's net profit for the year ended 31 December 2006 further improved as a result of the business integration and human resource restructuring. Apart from the success in disposing of the loss-suffering operation, the Group has also been able to maintain its profitability and record a profit for the year with a growing trend for two consecutive years since the Group recorded a loss in 2004.

## OPERATIONAL REVIEW

The acquisition of 東莞市晶捷電訊產品有限公司 was finally terminated on 31 July 2006. The termination did not have any material adverse impact on the business operation of the Group and was in the best interests of the shareholders. The Group still takes an active interest in identifying other opportunities that may help uplift its competitive advantages in future by enhancing its quality control in the manufacturing processes.

The Company entered into two subscription agreements with two new subscribers on 8 May 2006 and 9 October 2006, respectively, raising approximately HK$11,208,000 in total which has been fully utilised as general working capital for funding the acceleration of the growth of the Group and minimising any unnecessary finance costs which may have been incurred.

With the encouraging results achieved in the current year, the Group will continue to optimise and improve operational efficiency while at the same time ensuring the quality of products and services to be delivered to our customers in future.

## OUTLOOK

We have every confidence in the PRC mobile phone market which is currently the largest around the globe, with growing number of mobile phone subscribers over the past several years.

Based on the statistics released by the Ministry of Information Industry, the number of mobile phone subscribers in the PRC reached 461 million as at the end of December 2006, representing an increase of 68 million over the beginning of 2006. eMarketer has forecasted that the number of mobile phone subscribers in China will top 635 million by 2010. All these statistics suggest that the mobile phone industry in the PRC looks promising in the medium term.

The Group entered into sale and purchase agreements (the "Agreements") with Korea Technology Investment Corporation and KTIC M&A, Inc. on 29 December 2006 for the purchase of 22.49% shares in KBT Mobile Co., Limited ("KBT"), a South Korean company which has the capability to develop 3G mobile appliances, to capitalise on the new potential business opportunity arising from this area. Together with the advanced technology of KBT to develop 3G mobile appliances and the existing firm customer base of the Group in the PRC, the Group will form a business alliance through a proposed acquisition to make preparations for the new 3G era in China in the near future. Certain terms of the Agreements are subject to negotiation for amendments and the proposed acquisition is expected to be completed by the end of May 2007.

The Group always keeps abreast of technology upgrades on mobile appliances. We possess profound knowledge of the telecommunication sector, product features and the needs of our customers. We will continue to provide innovative product ideas to our customers to help reinforce and maintain their market positioning, and will grow together with them as our ongoing business partners.

Having already been fully aware of the demand for smartphones in the PRC market several years ago, the Group is now well-positioned for the development of the smartphone business. The Group's unique strength in making ongoing innovative product features catering for customers' needs is expected to contribute substantially in the long term to the switch from conventional handsets to smartphones by young adults who have strong purchasing power.

We expect 2007 to be a more promising and challenging year for the Group. Leveraging on our prudent and experienced management as well as our strong and committed workforce, we will strive to maintain and further expand our market share while at the same time bringing along greater return to our shareholders.

The growth and success of the Group can only be accomplished with the efforts and excellent performance of our entire staff, as well as the support of our business partners and bankers. I would like to take this opportunity to express my most sincere gratitude towards their contributions. We will devote every and each of our efforts to delivering the best performance and results in 2007 and the years ahead.

## MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group continued to finance its operation and capital expenditure through internally generated fund, and support certain product solutions development and business expansion from the listing proceeds as disclosed in the prospectus of the Company. The Group maintained a healthy liquidity position with a current ratio of approximately 4.16 (2005: 1.82) and total cash and bank balances amounted to approximately HK$23,571,000 (2005: HK$62,602,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 31 December 2006, the gearing ratio based on total liabilities over total assets was approximately 23.73% (2005: 52.11%).

## CAPITAL STRUCTURE AND FLUCTUATION IN EXCHANGE

Saved as disclosed in the consolidated statement of changes in equity and the note to share capital, there is no movement in the capital structure during the year.

During the year under review, sales and purchases of the Group were mainly transacted in US dollars and Hong Kong dollars. As at 31 December 2006, substantial portion of the assets and liabilities of the Group were current in nature, and the amounts were principally denominated in US dollars and Hong Kong dollars, foreign exchange risk was considered to be minimal.

## EMPLOYEES

As at 31 December 2006, there was a total of 22 (2005: 22) full-time staff employed by the Group. The staff costs, for the year including directors' remuneration were approximately HK$5,287,000 (2005: HK$5,008,000).

## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the year under review, the Group did not have any significant investment or material acquisitions. The proposed acquisition of KBT, which is mentioned under the section Outlook above, constitutes a major transaction under GEM Listing Rules and will be subject to the approval by the shareholders of the Company in the extraordinary general meeting later.

## CHARGE, CONTINGENT LIABILITIES AND COMMITMENTS

There were guarantees to the extent of HK$40,000,000 (2005: HK$240,000,000) given to banks by the Company in respect of banking facilities available to certain wholly owned subsidiaries. As at 31 December 2006, the Group had commitment under operating lease amounting to approximately HK$399,000 (2005: HK$912,000) and there was no charges on any assets of the Group.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the year 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.

## BOARD PRACTICES AND PROCEDURES

The Company was in compliance with the Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules throughout the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

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

Hong Kong, 26 March 2007

*The executive directors as at the date of this announcement are Mr. Chan Ka Wo, Mr. Ra Chang Ju, Mr. Ong Se Mon and Mr. Cho Hui Jae and the independent non-executive directors as at the date of this announcement are Mr. Lo Hang Fong, Mr. Li Meng Long and Mr. Choy Mun Kei.*

*This announcement will remain on website of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*