

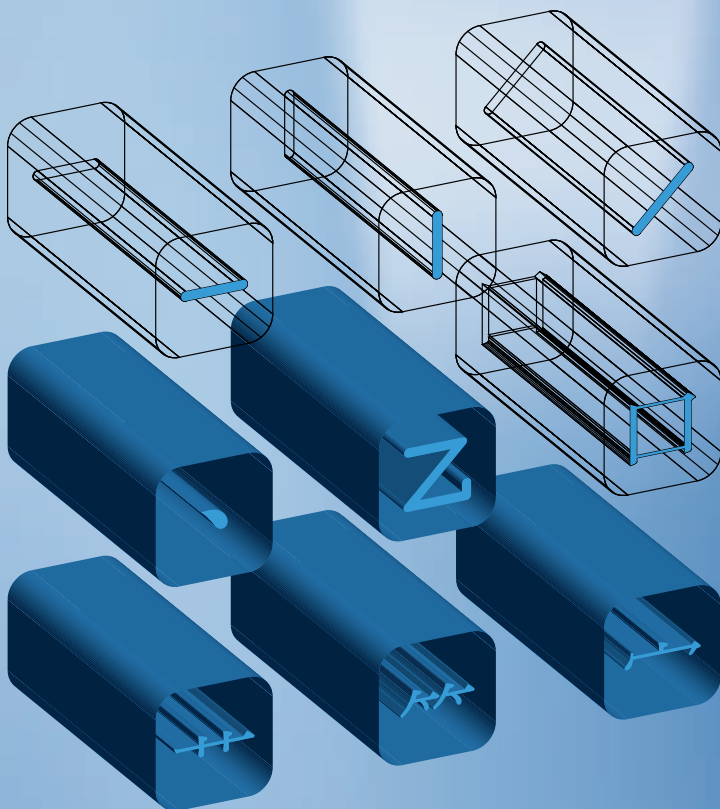


Q9 Technology Holdings Limited

(九方科技控股有限公司)*

(incorporated in the Cayman Islands with limited liability)

Interim Report 2001



* For identification purpose only

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This report, for which the directors of Q9 Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this document 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 document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- HK\$4.4 million turnover achieved for the six months ended 30 June 2001, representing an increase of 18% from corresponding period last year.
- Gross profit margin increased to approximately 91% compared to 82% in last period.
- Operating loss decreased to approximately HK\$7.1 million compared to HK\$7.9 million in last period.
- Loss attributable to shareholders for the six months ended 30 June 2001 decreased by HK\$0.8 million from corresponding period last year.
- Establishing Q9 Chinese character input system as the number one Chinese input system adopted by educational institutions in Hong Kong.

The Group has recorded a net loss attributable to shareholders for the six months ended 30 June 2001 of HK\$7,078,000 representing a basic loss per share of HK0.67 cents.

The unaudited consolidated results for the three months and the six months ended 30 June 2001 and the comparisons with last year are set out in the accompanying table.



HALF YEAR RESULTS (UNAUDITED)

The Board of Directors (the “Directors”) of Q9 Technology Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2001, together with the unaudited comparative figures for the corresponding period in 2000 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	2,483	2,062	4,421	3,734
Cost of sales		(242)	(393)	(408)	(676)
Gross profit		2,241	1,669	4,013	3,058
Other revenues		103	25	139	106
Selling and distribution expenses		2,114	3,820	3,643	5,097
Research and development expenses		1,302	1,628	3,029	2,461
General and administrative Expenses		2,557	1,906	4,558	3,450
Operating loss		(3,629)	(5,660)	(7,078)	(7,844)
Finance costs		—	11	—	49
Loss attributable to shareholders		(3,629)	(5,671)	(7,078)	(7,893)
Loss per share (cent)	4	(0.36)	(0.57)	(0.67)	(0.79)



Notes:

1 Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 13 March 2000 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares (the "Shares") on the GEM of the Stock Exchange, the Company became the ultimate holding company of its subsidiaries now comprising the Group on 7 May 2001. Details of the Reorganisation were set out in the prospectus of the Company dated 10 May 2001 (the "Prospectus"). The Shares were listed on GEM on 18 May 2001.

The results of the Group comprise the results of all companies now comprising the Group using the merger basis of accounting as if the current group structure had been in existence since 1 January 2000, or the date of incorporation, whichever is later. In the opinion of the Directors, the accounts prepared on the above basis present fairly the results of the Group as a whole.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

2 Turnover and revenues

Turnover and other revenues of the Group on the basis set out above are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	<u>2,483</u>	<u>2,062</u>	<u>4,421</u>	<u>3,734</u>
Other revenues				
Interest	<u>103</u>	<u>4</u>	<u>129</u>	<u>85</u>
Other	<u>0</u>	<u>21</u>	<u>10</u>	<u>21</u>
	<u>103</u>	<u>25</u>	<u>139</u>	<u>106</u>
Total revenues	<u><u>2,586</u></u>	<u><u>2,087</u></u>	<u><u>4,560</u></u>	<u><u>3,840</u></u>



3 Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six months ended 30 June 2001 (30 June 2000: Nil).

No provision for deferred tax has been made in the accounts as the tax effect of timing differences is not material to the Group.

4 Loss per share

The calculation of loss per share for the three months and six months ended 30 June 2001 is based on the unaudited consolidated loss attributable to shareholders of HK\$3,629,000 and HK\$7,078,000 respectively (three months and six months ended 30 June 2000: HK\$5,671,000 and HK\$7,893,000 respectively) and the weighted average number of shares of 1,000,000,000 and 1,062,500,000 shares respectively (three months and six months ended 30 June 2000: 1,000,000,000 shares) in issue. In determining the weighted average number of shares, the 500,000,000 shares issued on the establishment of the Company and Reorganisation of the Group and a further 500,000,000 shares issued pursuant to the capitalisation issue are deemed to have been in issue since 1 January 2000.

No diluted loss per share is presented as the exercise of subscription rights attached to the share options would not have a dilutive effect on the loss per share.

5 Interim dividend

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2001. (2000: Nil).

6 Transfer to reserve

There was no transfer to and or from reserve during for the three months and six months ended 30 June 2001 (30 June 2000: Nil).



BUSINESS REVIEW AND PROSPECTS

The group's revenue for the six months period ended 30 June 2001 of HK\$4,421,000 increased by HK\$687,200 or 18% over corresponding period last year. The increase in the group's revenue for the six months period in current year over corresponding period of last year was mainly attributable to increase in sales of Q9 Character Input System ("Q9 CIS") in Hong Kong, which increased by about HK\$721,600 or 25%, and new sources of income totaling HK\$525,300 derived from licensing of Q9 CIS to corporations who adopted Q9 CIS web version and from five Original Equipment Manufacturers ("OEM"). The increase in the group's revenue for the six months period in current year was partly offset by a decrease in sales of Qcode software by HK\$232,800, and a decrease in sales of computer accessories by HK\$326,900 from corresponding period of last year. As a result of the change in sales mix, gross profit margin for the six months period ended 30 June 2001 increased to about 91% as compared to about 82% for the corresponding period last year.

The group's total expenses for the six months period ended 30 June 2001 of HK\$11,230,000 increased by HK\$222,000 or 2% over corresponding period last year, whilst the group's total expenses for the three months period ended 30 June 2001 of HK\$5,973,000 decreased by HK\$1,381,400 or 18.8% over corresponding period last year. In the second half of 2001, the group's selling and distribution expenses will increase, as a number of marketing programs will be launched to promote Q9 CIS in Hong Kong, China and Taiwan.

Management of the group believes there is considerable scope to expand packaged system sales of Q9 CIS in Hong Kong, as the group has taken initiatives to reach more potential customers through new market channels and programs targeted to the mass consumers. Commencing in September 2001, the group expects the number of retail outlets which will distribute Q9 CIS package software will increase to over 1,500 from less than 60 outlets at present. The group has already successfully supplied packaged system to about fifty percent of primary and secondary schools, six universities, and over twenty government departments in Hong Kong. A new version of Qcode will also be ready for market launch in September 2001, which will incorporate many new and useful features. Qcode will be more actively promoted to corporate clients and existing users in second half of 2001.



Going forward, Q9 CIS licensing income from OEM will increase as more OEM who have signed licensing agreements with the group will commence production during second half of 2001. Prototype products with three international mobile phone manufacturers are now completed and being tested. Launching schedule of these products will be determined and announced with these manufacturers. In June 2001, the group was invited to participate in the product launch ceremony in Singapore by one of the three international mobile phone manufacturers, and demonstrated Q9 CIS with a prototype product embedded with Q9 CIS software.

The group has established a wholly owned subsidiary in Shenzhen, PRC in early July, and marketing and sales of Q9 CIS and Qcode in PRC will commence in August 2001. The group will replicate the marketing strategies it has adopted for the Hong Kong market, and intends to penetrate the PRC market through direct sales and promotional activities targeted towards the OEM, corporate, government, and education market segments, and through establishment of distribution channels targeted towards the mass consumers. The group also plans to adopt the business format franchise approach to develop the group's business in China. The group has commenced discussion with a number of companies in PRC on distribution arrangements, as well as franchise arrangements. The group signed an agreement with Sohu.com (Hong Kong) Limited in July 2001 to co-promote a national Q9 competition in China. The objectives of the competition are to support the market launch of Q9 CIS in China, to encourage purchases of original Q9 CIS software, and to promote Q9 CIS to the mass audience in China and Hong Kong. Only purchasers of original Q9 CIS software may register for the national Q9 competition, which offers a number of grand prizes to the winners. The group plans to grant valuable prizes to a number winners on a monthly basis, who are able to input Chinese characters using Q9 CIS at the fastest speed. After a year of monthly competition, a number of winners for the year will be invited to attend the final competition, whereby the champion of the national Q9 competition will be entitled to win a grand prize of about one million Hong Kong dollars. The launch of the National Q9 Competition is scheduled for January 2002, after the group has established mass distribution channels in China, and finalized the advertising and media campaign strategies to promote the competition to the mass consumers. As part of our promotional plan, the group has scheduled to participate in at least six trade and technical exhibitions in Guangzhou, Shenzhen, Beijing, and Hong Kong during second half of 2001.



In the next two years, the group will focus its marketing efforts in China. The listing of the group in Hong Kong GEM will certainly enhance the group's reputation in China and strengthen its negotiation power with potential customers. The group also recognize the strong growth China's economy would support high volume sales of hardware manufacturers and personal computers producers, which will directly benefit the group's licensing business.

COMPARISON OF THE BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Establishing a wholly owned marketing and sales subsidiary in the PRC

The group formed a wholly owned subsidiary in Shenzhen, PRC, which was incorporated on 3rd July 2001. The group rented an office in Shenzhen in July 2001, and plans to set up additional offices in other cities for its sales and marketing operation in PRC during the second half of 2001.

Reviewing distribution agreements with the group's distributor in Taiwan and appointment of additional distributors for the Taiwan market

The group's relations with its existing distributor in Taiwan continues to be satisfactory, and the group does not plan to appoint additional distributors. Through the Taiwan distributor, the group has successfully launched Q9 CIS Palm Taiwan version in August 2001 to the market. The group did not establish a marketing and sales subsidiary in Taiwan during the period.

Concentrating on its marketing and sales so as to generate licensing fee income

Q9 CIS was embedded into mobile phones being developed by three major international companies during the six months ended 30 June 2001. The group has commenced negotiation of the terms of a licensing agreement with one of the three international companies, and expects the negotiation of a licensing agreement with another one of the three international companies will commence soon. During the period, the group has signed three licensing agreements, including one Hong Kong manufacturer of desk top telephone, Wang Sing Electronic Company, one PRC manufacturers of pagers used for financial information and stock quotes, Shenzhen



Webook Information Technology Co., Limited, and one Taiwan manufacturer of integrated circuits, Elan Microelectronics Corporation (“Elan”). Elan is a publicly listed company in Taiwan and one of the top integrated circuits design and manufacturing company, which will install Q9 CIS in its databank’s dictionary chips.

Continuing research and development

The group completed the development of Q9 2001 (Hong Kong version) in May 2001, which was launched on the Hong Kong market in late May 2001. The group plans to launch Q9 2001 (PRC version) in the PRC market in August 2001. Q9 2001 newly incorporated features include Q9 stroke input option, a comprehensive Chinese dictionary, a comprehensive English dictionary, and an interactive game.

The group completed the development of its English version of Q9 in June 2001, which now enables the group to offer to its customers a dual option for the Chinese and English. The group has also completed the first Q9 versions for both Japanese and Korean, and the group plans to develop Q9 versions for some of the European languages and Arabic commencing second half of 2002. The group is also working with a number of desk top phone manufacturers to incorporate Q9 CIS into their message telephones, and testing of these message telephones in a telephone network is expected to commence in the third quarter of 2001.

DIRECTORS’ INTERESTS IN SHARES

At 30th June 2001, the interests of the Directors and their associates in the Shares of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or which are required were as follows:

Directors	Personal Interest	Family Interest	Corporate Interest	Other interest	Total no. of Shares
Leung Lap Yan	Nil	Nil	300,000,000 <i>(Note 1)</i>	Nil	300,000,000
Lau Man Kin	Nil	Nil	93,000,000	Nil	93,000,000
Leung Lap Fu, Warren	Nil	Nil	42,000,000	Nil	42,000,000



Note:

1. These shares are held by Step Up Company Limited, a company in which Mr. Leung Lap Yan holds 55% interest and he is deemed to have interest in all shares held by Step Up Company Limited.

Save as disclosed above, none of the Directors or their associates had, as at 30 June 2001, any interests in the Shares of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 5 May 2001 and the Share Option Scheme adopted by the Company on 7 May 2001, particulars of the outstanding options which have been granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are set out below:

Name of Director	Number of underlying shares and outstanding at 30 June 2001	Exercise Price	Option Exercise Period*	Date of Grant**
Dr. Lim Yin Cheng	84,480,000	HK\$0.36	See note 1 below	5/5/2001
Mr. Leung Lap Yan	71,720,000	HK\$0.36	See note 1 below	5/5/2001
Mr. Leung Lap Fu Warren	14,470,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Lau Man Kin	13,390,000	HK\$0.36	See note 1 below	5/5/2001
Mr. William Tam Kam Biu	6,400,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Clement Fung Siu To	2,560,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Kwan Kin Chung	1,150,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Tao Shi	640,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Phileas Kwan Po Lam	1,000,000	HK\$0.45	18/5/01 to 17/5/11	18/5/2001
Mr. Lun Pui Kan	1,920,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Lun Pui Kan	3,000,000	HK\$0.45	18/5/01 to 17/5/11	18/5/2001

- * Option period commenced from date of grant and terminating ten years thereafter. No options granted pursuant to the Pre-IPO Share Option Scheme and Share Option Scheme had been exercised as at 30 June 2001.



** Options were granted pursuant to the Pre-IPO Share Option Scheme and Share Option Scheme on 5/5/2001 and 18/5/2001 respectively.

Save as disclosed above, during the six months ended 30 June 2001, none of the Directors or their associates was granted options to subscribe for Shares.

The options may be exercised at any time within the option period provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period.

Note 1:

Commencement date when the options shall vest and be exercisable:	Percentage of options Exercisable by each grantee in respect of options granted to him
(a) the date falling six months from 18 May 2001	10%
(b) the date falling six months from the date in (a)	10%
(c) the date falling six months from the date in (b)	10%
(d) the date falling six months from the date in (c)	20%
(e) the date falling six months from the date in (d)	20%
(f) the date falling six months from the date in (e)	20%
(g) the date falling six months from the date in (f)	10%

Note 2:

Commencement date when the options shall vest and be exercisable:	Percentage of options Exercisable by each grantee in respect of options granted to him
(a) the date falling six months from 18 May 2001	10%
(b) the date falling six months from the date in (a)	20%
(c) the date falling six months from the date in (b)	20%
(d) the date falling six months from the date in (c)	20%
(e) the date falling six months from the date in (d)	20%
(f) the date falling six months from the date in (e)	10%

SPONSORS INTERESTS

As updated and notified by Company's sponsor, Anglo Chinese Corporate Finance, Limited (Anglo Chinese), 3,660,000 Shares and 850,000 Shares are held by a holding company and two directors of Anglo Chinese as at 30 June 2001. Saved as disclosed above, neither Anglo Chinese nor its directors or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the company, including options or rights to subscribe for such securities.

Pursuant to the agreement dated 18 May 2001 entered into between the company and Anglo Chinese, Anglo Chinese will receive a fee for acting as the company's retained sponsor for the period from 18 May 2001 to 31 December 2003.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register of substantial shareholders maintained under Sections 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name of Shareholder	Number of shares	Approximate percentage holding
Mega Fusion Limited	400,000,000	32%
Asia Orient Holdings (BVI) Limited (Note 1)	400,000,000	32%
Asia Orient Holdings Limited (Note 2)	400,000,000	32%
Mr. Poon Jing (Note 3)	400,000,000	32%
Step Up Company Limited	300,000,000	24%
Mr. Leung Lap Yan (Note 4)	300,000,000	24%
Culture.com Technology (BVI) Limited	300,000,000	24%
Culturecom Holdings (BVI) Limited (Note 5)	300,000,000	24%
Culturecom Holdings Limited (Note 6)	300,000,000	24%



Notes:

1. Asia Orient Holdings (BVI) Limited is deemed to be a substantial shareholder as Mega Fusion Limited is its wholly owned subsidiary.
2. Asia Orient Holdings Limited is deemed to be a substantial shareholder as Asia Orient Holdings (BVI) Limited is its wholly owned subsidiary.
3. Mr. Poon Jing is deemed to be a substantial shareholder as he has controlling interest in Asia Orient Holdings Limited.
4. Mr. Leung Lap Yan is deemed to be a substantial shareholder as he is interested in 55% of the shares of Step Up Company Limited.
5. Culturecom Holdings (BVI) Limited is deemed to be a substantial shareholder as Culture.com Technology (BVI) Limited is its wholly owned subsidiary.
6. Culturecom Holdings Limited is deemed to be a substantial shareholder as Culturecom Holdings (BVI) Limited is its wholly owned subsidiary.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2001, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Shares.

COMPETING INTERESTS

None of the Directors or the 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.

AUDIT COMMITTEE

Pursuant to rules 5.23 and 5.24 of the GEM Listing Rules, an audit committee, comprising two independent non-executive directors, namely Mr. Ip Chi Wai and Angus Tse Wang Cheung, was established on 19 September 2000.

The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. The audit committee has met one time since its formation.

By order of the Board

Leung Lap Yan

Chairman

10 August 2001

