

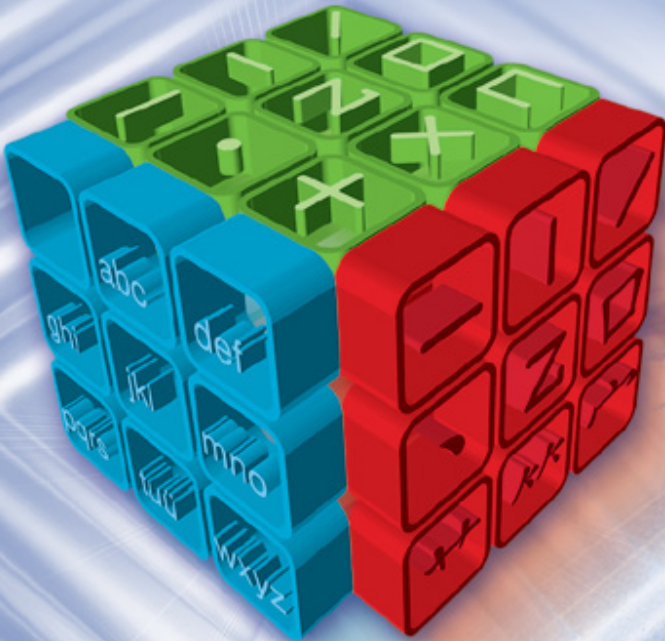


# Q9 Technology Holdings Limited

(九方科技控股有限公司)\*

(Incorporated in the Cayman Islands with limited liability)

*2002 First Quarterly Report*



\* For Identification purpose only

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

*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 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 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.*



## FINANCIAL HIGHLIGHTS

- HK\$1.44m turnover achieved for the 3 months ended 31 March 2002, representing a decrease of 26% from corresponding period last year.
- HK\$1.215 m gross profit achieved for the 3 months ended 31 March 2002, representing a decrease of 31% from corresponding period last year.
- Gross profit margin percentage decreased to approximately 84% compared to 91% in last period.
- Operating loss increased to approximately HK\$5.783 m compared to HK\$3.448 m in last period.
- Loss attributable to shareholders increased by approximately HK\$2.335 m compared to last period.
- Established Q9 Chinese character input system as the officially approved educational software tool for inclusion in the curriculum by educational institutions in Hong Kong and in Shan Dong Province, China.
- Signed licensing agreement with UTStarcom Telecom Co., Ltd to embed Q9 Chinese input system, as well as the newly launched Q9 English input system into the PAS Wireless access telephones, Nokia (HK), and two desk top message phone manufacturers in China.

The Group has recorded a net loss attributable to shareholders for the three months ended 31 March 2002 of HK\$5,783,000, representing a basic loss per share of HK0.46 cent.

The unaudited consolidated results for the three months ended 31 March 2002 and the comparisons with last year are set out in the accompanying table.

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## THREE MONTH 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 ended 31 March 2002, together with the unaudited comparative figures for the corresponding period in 2001 as follows:

		Unaudited Three months ended 31 March	
	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	2	1,440	1,938
Cost of sales		(225)	(165)
Gross profit		1,215	1,773
Other revenues	2	184	36
Selling and distribution expenses		2,154	1,529
Research and development expenses		2,329	1,727
General and administrative expenses		2,699	2,001
Operating loss		(5,783)	(3,448)
Finance costs		0	0
Loss attributable to shareholders		(5,783)	(3,448)
		<b>Cents</b>	<b>Cents</b>
Loss per share	4	0.46	0.34

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 (Revised) 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 the subsidiaries now comprising the Group on 7 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 2001, and where applicable, their respective dates of incorporation or acquisition by the Group, whichever is later.

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 in note 1 above are as follows:

	Unaudited	
	Three months ended	
	31 March	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sale of goods at invoiced value, net of returns and discounts	1,440	1,938
Other revenues		
Interest	174	26
Other	10	10
	184	36
Total revenues	1,624	1,974

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3. **Taxation**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the three months ended 31 March 2002. The subsidiaries operating in Mainland China have no assessable profits during the relevant periods and accordingly no provision for Mainland China profits tax has been made.

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 the basis loss per share for the three months ended 31 March 2002 is based on the unaudited consolidated loss attributable to shareholders of HK\$5,783,000 (2001: HK\$3,448,000) and the weighted average number of 1,250,000,000 (2001: 1,000,000,000) ordinary shares in issue during the periods. In determining the weighted average number of shares in 2001, the 500,000,000 shares issued upon establishment of the Company and as part of the Reorganisation and the further 500,000,000 shares issued pursuant to the capitalisation issue had been in issue throughout the 3 months ended 31 March 2001.

No diluted earnings per share is presented as the exercise of the 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 three months ended 31 March 2002 (2001: Nil).

6. **Transfer to reserve**

There was no transfer to and or from reserve during for the three months ended 31 March 2002. (2001: Nil)

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## BUSINESS REVIEW AND PROSPECTS

The Group's revenue for the three months period ended 31 March 2002 of HK\$1,440,000 decreased by HK\$498,500 or 26% over corresponding period last year. The decrease in the Group's revenue for the three months period in current year over corresponding period of last year was mainly attributable to decrease in sales of Q9 character input system in Hong Kong, notably dropped in sales of Q9 character input system to schools and to the end users. As a result of the use of discount coupons in the promotional campaign launched during the Chinese new year, gross profit margin for the three months period ended 31 March 2002 decreased to about 84% as compared to about 91% for the corresponding period last year.

The Group's total expenses for the three months period ended 31 March 2002 of HK\$7,183,000 increased by HK\$1,926,000 or 37% over corresponding period last year. The Group's selling and distribution expenses increased by about HK\$626,000 during the three months ended 31 March 2002 over the same period last year, as the number of marketing programs launched to promote Q9 character input system in Hong Kong and China increased. The Group's general and administrative expenses increased by about HK\$698,000 during the three months ended 31 March 2002 over the same period last year, which was mainly attributable to the following reasons: a) additional general and administrative expenses incurred for the newly establish subsidiary in Shenzhen and office in Guangzhou; b) additional legal and professional fees incurred following listing of the Group on GEM, and increase in the number of patent applications filed; and c) additional senior management staff and increased related payroll expenses.

The Group expanded its market channel to over 1,500 retail outlets for packaged system sales of the Q9 character input system in Hong Kong, and a number of department stores and retail chain stores commenced to market and promote Q9 CIS through their stores. The Group licensed Q9 CIS web version to the internet white pages, which allow web users to search for telephone numbers via the internet.

The Group expects that at least three original equipment manufacturers ("OEMs"), which are publicly listed companies in either Hong Kong or PRC, will commence production of mobile phones and/or PDAs, and licensing revenue will be derived from these OEMs during last quarter of 2002.

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
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The Group commenced marketing and sales of Q9 character input system in PRC since August 2001, and progress is satisfactory. The Group has appointed the distribution company of the Guangzhou Daily Group to distribute and promote Q9 CIS, which has over 200 distribution outlets and chain stores in Guangzhou and other cities. The Group has also signed distribution agreements with a number of software distribution companies in Shenzhen, which has over sixty sales outlets in Shenzhen and other cities in Guangdong province. Management of the Group is positive on the outlook for the year 2002, as the Group has significantly improved the features and performance of its products, and the response from customers and potential clients are highly positive. The Group is hiring and training more sales persons and demonstrators to penetrate the end users, government, education, and corporate markets. Demonstrators are engaged to be stationed at selective retail outlets to provide live demonstration to customers to boost sales. The Group targets its marketing and promotional activities so that it will contribute directly to revenue and / or to reach a critical mass of customers within a short period of time, and which are cost effective.

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

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*Establishing further distribution centres in Shanghai, Beijing and Chongqing in the PRC*

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The Group has sponsored the Young Communists Association ("YCA") to co-promote Q9 CIS through a National Competition program. Through this program, the Group has the opportunity to provide training and to distribute Q9 CIS to millions of members of YCA through the National network training centers of YCA. It is expected the Group will develop a long term relationship with YCA, who will assist the Group in establishing more distribution centers in Beijing, Shanghai and other cities in China.

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The Group has successfully secured the endorsement of the Education Department in Shan Dong Province to include Q9 CIS in the curriculum of primary and secondary schools for the entire province, and will be published in the approved list of educational software. The Group is currently co-developing the marketing and distribution arrangements for the Shan Dong province, targeting over 15 million students and their parents, through the Educational TV channels and the training centers run by the Education Department.

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#### *Launching Q9 CIS in the Japanese Market*

The Group is currently in discussion with a company which provides technology transfer services and technical consultancy services to major equipment suppliers and manufacturers in Japan, to assist in product evaluation and to study the market feasibility of Q9 CIS Japanese version. However, it is expected that the actual market launch of Q9 CIS in the Japanese market will not take place during the first half of 2002 as originally planned as stated in the Prospectus.

#### *Launching Q9 CIS in the Korean Market*

The Group is in preliminary discussion with a Korean company, which provides next generation multimedia technology and services to telephone manufacturers and telephone network operators, to explore co-marketing arrangement. However, it is expected that the actual market launch of Q9 CIS in the Korean market will not take place during the first half of 2002 as originally planned as stated in the Prospectus.

#### *Continuing its marketing campaign in the Greater China market*

The Group continues its marketing efforts in the Greater China market targeting primarily educational institutions and equipment suppliers and manufacturers. During the National Exhibition of Educational Supplies held between 24 April to 27 April 2002 in Cheng Du, the Group attracted the interests of over 100 educators from all over China to attend a one hour presentation of Q9 CIS, and the responses and feedbacks are very positive. The Group is currently following up with over 70 enquiries received during presentations and exhibitions. In Hong Kong, the Vocational Training Council will launch training programs on Q9 CIS from May 2002 onward, and will provide certification for qualified trainees who meet specific standards in mastering Q9 CIS. In Taiwan, the newly formed subsidiary of the Group has established relationship with the Education Department in Taipei, which expressed interests to co-market Q9 CIS to primary and secondary schools in Taipei.

The Group is also making good progress in marketing Q9 CIS to a number of mobile and desk top telephone manufacturers in PRC.

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
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The Group is currently in discussion with a number of OEMs, with the objective to incorporate the Group's patented matrix mapping system on PDAs.

*Continuing research and development into mobile information platform applicable to as wide a range as possible of mobile telecommunication devices and other applicable electronic devices. Arabic and Thai versions and continuing development of its Japanese and Korean versions.*

The Group's current focus in research and development is to focus on the development of an operating system to be deployed in desk top short message phones. It is envisaged that the operating system could also be deployed on other mobile information, but the design and marketing focus of the operating system will be targeted towards the desk top short message phone manufacturers, as there is no entrenched competitor in this newly developed market, and the Group believes it has comparative advantages over its competitors in terms of market penetration into the end user markets in PRC, such as in Shan Dong province, where Q9 CIS is the only numeric based CIS endorsed by the Education Department.

#### *Securing further licensing agreements*

The Group has signed licensing agreements with two international mobile phone companies, and two desk top phone manufacturers based in PRC from 1st January 2002 to the date of this report. Although the Group may fall short of meeting the target of signing at least four licensing agreements with major international companies and not less than twelve agreements with manufacturers based in the Greater China region during the first half of 2002, the Group is confident that it will be able to secure further licensing agreements, due to the Group's continuous and focused research and development efforts and marketing efforts.

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## DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, 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 were as follows:

Directors	Personal Interest	Family Interest	Corporate Interest (Note 1)	Other interest	Total no. of Shares
Leung Lap Yan	Nil	Nil	280,000,000 (Note 2)	Nil	280,000,000
Lau Man Kin	Nil	Nil	93,000,000	Nil	93,000,000
Leung Lap Fu, Warren	Nil	Nil	22,000,000	Nil	22,000,000

Notes:

1. These shares are held by Step Up Company Limited.
2. Mr. Leung Lap Yan has a controlling interest in Step Up Company Limited and is deemed to have interest in all the shares held by Step Up Company Limited.

Save as disclosed above, none of the Directors or their associates had, as at 31 March 2002, any interests in the shares of the Company or its associated corporations which are recorded in the register required to be kept under Section 29 of the SDI Ordinance.

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## 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 31 March 2002	Exercise Price	Option Exercise Period*
Dr. Lim Yin Cheng	84,480,000	HK\$0.36	See note 1 below
Mr. Leung Lap Yan	71,720,000	HK\$0.36	See note 1 below
Mr. Leung Lap Fu Warren	14,470,000	HK\$0.36	See note 2 below
Mr. Lau Man Kin	13,390,000	HK\$0.36	See note 1 below
Mr. William Tam Kam Biu	6,400,000	HK\$0.36	See note 2 below
Mr. Clement Fung Siu To	2,560,000	HK\$0.36	See note 2 below
Mr. Kwan Kin Chung	1,150,000	HK\$0.36	See note 2 below
Mr. Tao Shi	640,000	HK\$0.36	See note 2 below
Mr. Phileas Kwan Po Lam	1,000,000	HK\$0.45	18/5/01 to 17/5/11
Mr. Lun Pui Kan	1,920,000	HK\$0.36	See note 2 below
Mr. Lun Pui Kan	3,000,000	HK\$0.45	18/5/01 to 17/5/11

\* 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 31 March 2002.

Save as disclosed above, during the three months ended 31 March 2002, 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 18th 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 18th 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 its immediate holding company and two directors of Anglo Chinese as at 31 March 2002. 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 31 March 2002, 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	32.0%
Asia Orient Holdings (BVI) Limited (Note 1)	400,200,000	32.0%
Asia Orient Holdings Limited (Note 2)	400,200,000	32.0%
Mr. Poon Jing (Note 3)	400,200,000	32.0%
Step Up Company Limited (Note 4)	280,000,000	22.4%
Culture.com Technology (BVI) Limited	300,000,000	24.0%
Culturecom Holdings (BVI) Limited (Note 5)	300,635,000	24.0%
Culturecom Holdings Limited (Note 6)	300,635,000	24.0%



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 and Winway H.K. Investments Limited are its wholly owned subsidiaries.
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 three months ended 31 March 2002, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Shares of the Company.

## **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.

By order of the Board  
**Leung Lap Yan**  
*Chairman*

13 May 2002