



Q9 Technology Holdings Limited
(九方科技控股有限公司)*
(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2002



* 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\$3.010 M turnover achieved for the 9 months ended 30 September 2002, representing a decrease of 57.6% from corresponding period last year.
- HK\$2.502 M gross profit achieved for the 9 months ended 30 September 2002, representing a decrease of 60.7% from corresponding period last year.
- Gross profit margin percentage for the 9 months ended 30 September 2002 decreased to approximately 83.1% compared to 89.8% in last period.
- Loss attributable to shareholders for the 9 months ended 30 September 2002 increased to approximately HK\$22.244 M compared to HK\$11.946 M in last period. Loss attributable to shareholders for the third quarter of HK\$5.653 M decreased by HK\$5.156 M or 47.7 % compared to HK\$10.809 M in the second quarter.
- Total operating expenses for the 9 months ended 30 September 2002 increased to approximately HK\$25.687 M compared to HK\$19.009 M in last period. Total operating expenses for the third quarter of HK\$6.783 M decreased by HK\$4.866M or 41.8% compared to HK\$11.649 M in the second quarter due to continuous cost cutting measures.
- Established agreement with Hong Kong IT Skills Assessment Centre of the Vocational Training Council, to co-develop and co-promote the “Q9 Chinese input assessment”, and to establish Q9 Chinese input skill as a recognized qualification by employers in Hong Kong. The assessment program was launched in September 2002.

The Group has recorded a net loss attributable to shareholders for the 9 months ended 30 September 2002 of HK\$22,244,000, representing a basic loss per share of HK1.78 cent.

The unaudited consolidated results for the nine months ended 30 September 2002 and the comparisons with last year are set out in the accompanying table.

NINE 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 and nine months ended 30 September 2002, together with the unaudited comparative figures for the corresponding periods in 2001 as follows:

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	774	2,676	3,010	7,097
Cost of sales		(164)	(320)	(508)	(727)
Gross profit		610	2,356	2,502	6,370
Other revenues	2	282	553	630	693
Selling and distribution expenses		(1,606)	(2,784)	(9,839)	(6,427)
Research and development expenses		(2,202)	(1,863)	(6,774)	(4,892)
General and administrative expenses		(2,975)	(3,132)	(9,074)	(7,690)
Operating loss		(5,891)	(4,870)	(22,555)	(11,946)
Finance costs		0	0	0	0
Loss for the period		(5,891)	(4,870)	(22,555)	(11,946)
Minority Interest		238	0	311	0
Loss attributable to shareholders		(5,653)	(4,870)	(22,244)	(11,946)
		Cents	Cents	Cents	Cents
Loss per share	4	(0.45)	(0.39)	(1.78)	(1.06)

Notes:

1 Group reorganisation and basis of preparation

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 30 September		Unaudited Nine months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	774	2,676	3,010	7,097
Other revenues				
Interest income	166	553	504	683
Other	116	0	126	10
	282	553	630	693
Total revenues	1,056	3,229	3,640	7,790

3 Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the nine months ended 30 September 2002. (30 September 2001: nil) 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. (30 September 2001: nil)

4 Loss per share

The calculation of the basis loss per share for the three months and nine months ended 30 September 2002 is based on the unaudited consolidated loss attributable to shareholders of HK\$5,653,000 and HK\$22,244,000 respectively (three months and nine months ended 30 September 2001: HK\$4,870,000 and HK\$11,946,000 respectively) and the weighted average number of 1,250,000,000 shares (three months and nine months ended 30 September 2001: 1,250,000,000 and 1,125,000,000) 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 nine months ended 30 September 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 nine months ended 30 September 2002 (30 September 2001: nil).

6 Statement of movement to and from reserves

	Share premium (unaudited) HK\$'000	Reorganisation reserve (unaudited) HK\$'000	Warrant reserve (unaudited) HK\$'000	Accumulated loss (unaudited) HK\$'000	Total (unaudited) HK\$'000
As at 1 January 2001	—	3,000	—	(19,774)	(16,774)
Premium on issue of					
Shares upon listing	110,000	—	—	—	110,000
Share issue expenses	(16,373)	—	—	—	(16,373)
Capitalisation issue	(5,000)	—	—	—	(5,000)
Loss for the nine months ended					
30 September 2001	—	—	—	(11,946)	(11,946)
As at 30 September 2001	<u>88,627</u>	<u>3,000</u>	<u>—</u>	<u>(31,720)</u>	<u>59,907</u>
As at 31 December 2001 and 1 January 2002	88,627	3,000	—	(39,323)	52,304
Issue of Warrants	—	—	6,250	—	6,250
Warrant issue expenses	(788)	—	—	—	(788)
Additional expenses incurred in connection with the issue of shares	(100)	—	—	—	(100)
Repurchase of shares	(138)	—	—	—	(138)
Loss for the nine months ended					
30 September 2002	—	—	—	(22,244)	(22,244)
As at 30 September 2002	<u>87,601</u>	<u>3,000</u>	<u>6,250</u>	<u>(61,567)</u>	<u>35,284</u>

BUSINESS REVIEW AND PROSPECTS

The Group's revenue for the nine months period ended 30 September 2002 of HK\$3,010,000 decreased by HK\$4,087,000 or 57.6% over corresponding period last year. Such decrease was mainly attributable to decrease in sales of Q9 character input system in Hong Kong, a slow start in penetrating the huge China market, and insignificant OEM licensing income booked during the period ended 30 September 2002. As the Group's strategy is to establish Q9 Chinese input system as the market leader and to focus on sales to OEM customers, the Group reduced the price of its packaged software, and allowed free downloads of a trimmed down version of Q9 Chinese input software through the Group's website. Over 260,000 free downloads have been registered in Hong Kong, which may affect sales in the short run, but will speed up the wide spread penetration and adoption of Q9 Chinese input as a de facto standard in the Greater China market.

The Group's total expenses for the nine months period ended 30 September 2002 of HK\$25,687,000 increased by HK\$6,679,000 or 35.1% over corresponding period last year, attributable to the Group increased selling and distribution expenses by HK\$3,412,000, increased research and development expenses by HK\$1,882,000, and increased general and administrative expenses by HK\$1,385,000, over same period last year. The Group's total expenses for the quarter ended 30 September 2002 of HK\$6,783,000 decreased by HK\$996,000 or 12.8% over corresponding period last year due to continuous cost cutting measures. Going forward, the Group intends to focus its marketing activities to OEM customers, including mobile phone, desk top phone, PDA and PC manufacturers, and promote Q9 to the end users in concert with these OEM manufacturers, and minimize the advertising and promotional budget deployed in targeting the end users directly. The Group commenced a co-marketing program with Nokia in Hong Kong and China, whereby users may download Q9 Chinese input system from a website and load the software into Nokia mobile phone models which run on Symbian operating platform. Four phone manufacturers, including Nokia (Hong Kong) Ltd, commenced productions of phones with Q9 embedded in September 2002, and four more OEM manufacturers will commence production of phones with Q9 in the last quarter of 2002. The Company will begin to have licensing fees from these phone manufacturers.

In Hong Kong, the Group's innovative Q9 CIS English version won the 2002 Federation of Hong Kong Industries Consumer Product Design Award. The teamed up with Hong Kong IT Skills Assessment Centre of the Vocational Training Council proceeded as plan, and the "Q9 Chinese input assessment" was launched in September 2002, and attracted over 800 participants in the program up to date of the report.

In PRC, the Group participated in Shenzhen Hi-Tech Expo in October 2002, where two new mainland distributors were recruited, and over 30 potential distributors who expressed interests to represent Q9 CIS in China. The Group focus its marketing effort to OEM customers, and market Q9 packaged software through its network of distributors in China.

In Taiwan, the Group acquired 51% interests in a former distributor of Q9 CIS, who have developed a wide network of distribution channels and good relationship with Taiwanese based OEM manufacturers. It is expected that the Taiwan's subsidiary will contribute positively to the Group in marketing Q9 CIS in Taiwan, as well as assisting the Group to promote Q9 CIS to Taiwanese OEM manufacturers based in Taiwan and/or in China.

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

Reviewing its marketing strategies for the Group's Asian markets

The Group has appointed a number of distributor in the Greater China market, but decided not to appoint distributor in Japan and Korea. The Group intends to continue its marketing focus on the huge China market, which requires full attention and dedication of resources, and decided not to pursue other markets as originally planned.

The Group's marketing strategies for the Greater China has been targeting primarily educational institutions and equipment suppliers. The Group continued discussion on co-marketing arrangements with the Education Department and an Educational TV Company in Shangdong Province, where Q9 CIS has been endorsed as an educational tool for primary and secondary schools.

Whilst the group continued its research and development efforts in application of Q9 CIS for use in the operating system of different mobile phones and desktop phones, the Group decided to stop its research and development activities on projects, which are not initiated by the customers. Hence, the Group has stopped the development of the mobile information platform, a second version of Q9 children's version and further development of Q9 CIS for other languages, unless there are specific requests from customers.

Q9 2002, incorporating enhanced functions and features such as a Chinese dictionary for both simplified and traditional Chinese characters, smarter design and enhanced user interface have been launched in the Hong Kong, PRC and Taiwan markets during the period.

Securing further licensing agreements

The Group has signed 9 licensing agreements; three with international mobile phone companies, three with mobile phone manufacturers and two with fixed line phone manufacturers based in PRC, and with one desktop phone manufacturer based in Singapore from 1 January 2002 to the date of this report. Although the Group may fall short of meeting the target of signing at least five licensing agreements with major international companies and not less than fifteen 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 and its superior product design features.

DIRECTORS' INTERESTS

(i) SHARES

At 30 September 2002, the interests of the directors and their associates in the ordinary 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	283,390,000 (Note 2)	Nil	283,390,000
Lau Man Kin	Nil	Nil	94,050,900	Nil	94,050,900
Leung Lap Fu, Warren	Nil	Nil	22,474,600	Nil	22,474,600

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 30 September 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.

(ii) WARRANTS

Directors	Corporate Interest	Subscription Price (Note 3)	Number of warrants held
Leung Lap Yan (Note 2)	Corporate interest (Note 1)	HK\$0.125 per share	5,120,000
Lau Man Kin	Corporate interest (Note 1)	HK\$0.125 per share	1,587,200
Leung Lap Fu, Warren	Corporate interes (Note 1)	HK\$0.125 per share	716,800

Notes:

- 1 The warrants 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 warrants held by Step Up Company Limited.
- 3 One warrant is convertible into one share at subscription price of HK\$0.125 per share. The subscription period of the warrants is from 8 February 2002 to 7 August 2003.

(iii) 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	Date of grant	Number of	Exercise Price	Option Exercise Period*
		underlying ordinary shares and outstanding at 30 September 2002		
Dr. Lim Yin Cheng	05/05/01	84,480,000	HK\$0.36	See note 1 below
Mr. Leung Lap Yan	05/05/01	71,720,000	HK\$0.36	See note 1 below
Mr. Leung Lap Fu Warren	05/05/01	14,470,000	HK\$0.36	See note 2 below
Mr. Lau Man Kin	05/05/01	13,390,000	HK\$0.36	See note 1 below
Mr. William Tam Kam Biu	05/05/01	6,400,000	HK\$0.36	See note 2 below
Mr. Clement Fung Siu To	05/05/01	2,560,000	HK\$0.36	See note 2 below
Mr. Kwan Kin Chung	05/05/01	1,150,000	HK\$0.36	See note 2 below
Mr. Tao Shi	05/05/01	640,000	HK\$0.36	See note 2 below
Mr. Phileas Kwan Po Lam	18/05/01	1,000,000	HK\$0.45	18/5/01 to 17/5/11
Mr. Lun Pui Kan	05/05/01	1,920,000	HK\$0.36	See note 2 below
Mr. Lun Pui Kan	18/05/01	3,000,000	HK\$0.45	18/5/01 to 17/5/11

- * Options were granted to each grantee in consideration of HK\$1.00. Option exercise 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 September 2002.

Save as disclosed above, at no time during the nine months ended 30 September 2002 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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
(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
(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 its immediate holding company and two directors of Anglo Chinese as at 30 September 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 30 September 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	32.1%
Asia Orient Holdings (BVI) Limited (Note 1)	400,200,000	32.1%
Asia Orient Holdings Limited (Note 2)	400,200,000	32.1%
Mr. Poon Jing (Note 3)	400,200,000	32.1%
Step Up Company Limited (Note 4)	283,390,000	22.7%
Culture.com Technology (BVI) Limited	300,000,000	24.1%
Culturecom Holdings (BVI) Limited (Note 5)	300,635,000	24.1%
Culturecom Holdings Limited (Note 6)	300,635,000	24.1%

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 LISTED SECURITIES

During the nine months ended 30 September 2002, the Company repurchased on the Stock Exchange a total of 3,650,000 ordinary shares of HK\$0.01 each in the share capital of the Company at an aggregate price of HK\$174,160, details of which are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
July 2002	—	—	—	—
August 2002	700,000	0.070	0.048	38,770
September 2002	2,950,000	0.046	0.045	135,390
	3,650,000			174,160

The Directors of the Company considered that the above repurchases were made with a view to enhancing the net asset per share of the Company. These shares were cancelled upon repurchase and the issued share capital of the Company was correspondingly reduced.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities as at 30 September 2002.

ACQUISITION OF SUBSIDIARY

Save as disclosed below, the Group did not have any material acquisition and disposal of subsidiaries and affiliated company for the nine months ended 30 September 2002.

Name of subsidiary	Purchase consideration <i>HK\$'000</i>	% Equity interests held by the Group
Q9 Technology Corporation (Formerly known as Qcode Technology Services Ltd)	1,734	51%

Save as disclosed below, the Group did not have any material acquisition and disposal of subsidiaries and affiliated company for the nine months ended 30 September 2001.

Name of subsidiary	Paid up Capital <i>HK\$'000</i>	% Equity interests held by the Group
Q9 Technology (Shenzhen) Ltd	2,000	100%

SEGMENTAL INFORMATION

No business segment analysis is provided as software and embedded systems development is the Group's only business segment.

In the third quarter, approximately 74% and 22% of the consolidated turnover, results and net assets of the Group are attributable to markets in Hong Kong and China respectively.

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

The third quarterly results has been reviewed by the audit committee.

By order of the Board

Leung Lap Yan

Chairman

Hong Kong, 12 November 2002