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

annual report 2002

* For Identification purpose only

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 of 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.

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HIGHLIGHTS OF THE YEAR

The Group recorded turnover of HK$4,293,000 for the year ended 31st December 2002, representing a decrease of 46.6% from the previous year.

The Group recorded HK$739,600 of OEM licensing revenue for the year 2002, representing an increase of 188% over that of the previous year. OEM licensing revenue for the fourth quarter of 2002 represents about 57% of turnover for the quarter, as compared to 0% in fourth quarter of 2001.The increase was the result of the first launch of mobile phones embedded with Q9 CIS by three PRC based mobile phone manufacturers since September 2002, which represents about 90% of OEM licensing revenue for the year. Q9 CIS package sales for the year 2002 recorded a decrease of 57% from the previous year.

The Group launched Q9 CIS XP version for simplified and traditional Chinese, Q9 PDA version, and Q9 English version during the year 2002. Q9 English version was awarded "Federation of Hong Kong Industries Consumer Product Design Award".

The Group established Q9 CIS as the officially approved educational software tool for inclusion in the curriculum by educational and training institutions in Hong Kong and in Shan Dong Province, China.

The Group recorded a net loss attributable to shareholders for 2002 of HK$32,145,000 (2001: HK$19,549,000). As the Group's investment in new product research and development, and advertising and promotion of Q9 CIS packaged software to the end users far outweighed the immediate financial benefits which could be derived from sales of such products, the Group decided to significantly curtail investment in these activities and to appoint a national distributor for the China market from 2003 onward, and focus its efforts and resources in the marketing of existing products to OEM customers.

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st December 2002 amounted to HK$4,293,000, representing a decrease of 46.6% from the previous year. Loss attributable to shareholders for the year 2002 of HK$32,145,000 compared to HK$19,549,000 in 2001. The loss per share was HK$2.57 cents (2001: a loss per share of HK$1.69 cents).

REVIEW OF OPERATIONS

During the year, the Group substantially increased its investment in research and development, and advertising and promotion on Q9 CIS in the Greater China market, with the objective to promote Q9 CIS to the end users. However, the effectiveness of these investments in generating sales revenue was limited, and the Group's turnover recorded a decrease of 46.6% from the previous year, mainly attributable to the decrease in sales of Q9 CIS software in the more mature Hong Kong market, which decreased by HK$4,736,000 and 64% from the previous year.

The following represents significant events underlying the Group's performance during the financial year 2002:

— The market launch of Q9 CIS 2002 (XP version) in the Greater China market faced a number of difficulties in penetrating the end users in the PRC and Taiwan.

— The Group acquire a 51% interest in Q9 Technology Corporation for HK$1,733,000, satisfied in cash, which will be subsequently diluted to 42.5% on 1st January 2003, as Q9 Technology Corporation issue new shares to a new shareholder who will contribute capital in cash, as well as his expertise in the OEM business.

— The Group Q9 CIS was included in the curriculum of the Education Department in Shandong Province.

— The increase in total operating costs of HK$9.03 million over previous year was mainly attributable to increased new products research and development expenses and marketing and promotion expenses, which amounted to an increase of approximately HK$5.2 million and HK$3.5 million respectively.

— The Group does not have any borrowings as at the end of the period under review, and the Group has no material funding requirements for capital expenditure commitments.

— The Group's cash and bank balance amounts to HK$33,670,000 as at the end of the period under review, and the majority of the bank balance are held as Hong Kong dollar short term deposits. The Group issued 250 million warrants to independent institutional or private investors in February 2002, raised net HK$5,625,000, conferring rights on the warrant holders to subscribe up to HK$31,250,000 in aggregate in cash for new shares at an initial subscription price of HK$0.125 per share (subject to adjustments).

— The Group signed licensing agreements with two PDA OEM manufacturers, three desktop phone manufacturers, and six phone manufacturers. The Q9 CIS embedded desktop short message phones, manufactured by a Singapore based Group, is scheduled for market launch in second quarter of 2003 in Hong Kong.

PROSPECTS

The focus of the Group's efforts for the year 2003 will be to market Q9 CIS to OEM customers, and to leverage on the distribution network and resources of local strategic partners in China and Taiwan to penetrate the end user markets, and to refer OEM customers to the Group based on sales agency arrangements with these partners.

With the completion of the award winning Q9 CIS English version, and the first time launch of Q9 embedded mobile phones, desktop phones, and electronic dictionaries during 2002, management will continue to focus its marketing focus to penetrate the OEM markets, and leverage on its strategic partners to penetrate the end user in the Greater China region in 2003 and the years ahead. The Group experienced some set backs and delays in penetrating these two markets during 2002. Going forward, the Group will capitalize on its vast pool of patented and well developed technology products to pursue the OEM business and generate return on the Group's significant investment in research and development in the past. Management expects that OEM licensing revenue will have significant growth in 2003 as more products embedded with Q9 CIS are being rolled out by the OEM customers.

The Group's management decided to modify its business strategies going forward by focusing only on marketing existing products to OEM customers through its own sales force, develop new products only with the orders of definitive customers, and penetrate the end user market through the resources and network of its strategic partners. From the beginning of 2003, the Group's management took immediate actions to minimize the operating expenses of the Group with the objective to lower the breakeven point to profitability.

The Group will continue its marketing efforts with the OEM business and continuous progress is being made. In March 2003, the Group signed a new agreement with Hangzhou Starcom Telecom Co., Limited, a subsidiary of UTStarcom Telecom Co., Ltd. ("UTStarcom"), whereby UTStarcom agreed to deploy Q9 CIS in all of its products which require Chinese input system.

The Group entered into a share purchase agreement with its Taiwan distributor, to acquire 51% equity interest of Q9 Technology Corporation. Effective 1st January 2003, Q9 Technology Corporation issued new shares to a new shareholder which reduced the effective equity interest of the Group in Q9 Technology Corporation to 42.5%. The Group will capitalize on the local skills and talents of the Taiwanese partners to penetrate OEM manufacturers and the end user markets in Taiwan. To date, Q9 Technology Corporation has signed non-disclosure agreements with two digital set top box manufacturers.

The Group signed an agreement with Shantou Idall Electronic Company Ltd ("Idall") in February 2003, under which Idall was appointed as the sole National Distributor of Q9 CIS packaged software for the entire market in the PRC (excluding Hong Kong, Macau and Taiwan). Through this agreement, the Group could leverage on Idall's distribution channels, advertising and promotion programs in the PRC, and continue to penetrate the end users in the PRC with minimum investment in marketing expenses.

Management expects the expense to turnover ratio of the Group will show significant improvement in 2003, and strives to achieve profitability within the shortest time possible.

The board of directors of the Company (the "Board") would like to supplement certain information to its announcement and annual report in order to fully comply with the disclosure requirements stipulated in the GEM Listing Rules as follows:

(1) Outstanding commitment

The Group has no borrowings facilities and no borrowing outstanding as at 31st December 2002 (31st December 2001: nil).

(a) Capital commitments

	Group	
	2002	2001
	HK$'000	*HK$'000*
Authorised but not contracted for	**—**	1,720
Contracted but not provided for	**—**	—
	—	1,720

(b) Commitments under operating leases

As at 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Not later than one year	**1,448**	2,611
Later than one year but not later than five years	**528**	1,962
	1,976	4,573

(c) Other commitments

As at 31st December 2002, the Group had no other commitment (31st December 2001: HK$8,000,000).

(2) Liquidity and financial resources

The Group has no interest bearing debt. During the year, 3,650,000 ordinary shares of the Company were repurchased. The Group relies on the internal resources and the net proceeds from IPO as source of funding. The Group keeps most of its cash in Hong Kong dollars as short term fixed deposit at banks, and balance of cash are kept in bank accounts as working capital of the Group. The Group kept a minimum amount of cash as working capital in bank account of its subsidiary in China in Renminbi, and in Taiwan in New Taiwanese dollars, and the balance in Hong Kong dollars.

There are no charges on the Group's assets as at 31st December 2002 (31st December 2001: nil).

The Group has no debt as at 31st December 2002 (31st December 2001: nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil (31st December 2001: nil) as at 31st December 2002.

(3) Order book

Due to the nature of the group's business, the Group does not maintain an order book (prospects for new business was discussed in the Management's Discussion and Analysis section).

(4) Investment

Since 31st December 2001, apart from the acquisition of subsidiary mentioned below, there are no other significant investments held by the Group.

(5) Acquisition of subsidiary

Save as disclosed below, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies for the year ended 31st December 2002.

Name of subsidiary	Purchase consideration *HK$'000*	% Equity interests held by the Group
Q9 Technology Corporation (Formerly known as Qcode Technology Services Ltd)	1,733	51%

Save as disclosed below, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies for the year ended 31st December 2001.

Name of subsidiary	Paid up capital *HK$'000*	% Equity interests held by the Group
Q9 Technology (Shenzhen) Ltd	2,000	100%

(6) Human resources

Staff number

As at 31st December 2002, the Group employed 52 staffs (31st December 2001: 66). Total staff costs, including directors' emoluments were approximately HK$12.9 million for the year ended 31st December 2002 as compared with that of approximately HK$13.8 million for the last year.

Remuneration policies

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share options may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

(7) Future plans for material investments and capital assets

The Group does not have any present plan for material investments or capital assets. The Group will focus its efforts in promoting existing products, Q9 CIS Chinese and English version, to OEM customers in the Greater China region. Accordingly, business objectives relating to the promotion of Q9 CIS into other markets, as stated in the Prospectus of the Group will be adjusted, and R&D expenditures for new products will also be significantly reduced.

(8) Hedging policy

The Group does not have any material exposure to fluctuations in exchange or interest rates, therefore no hedging measures have been taken at present.

(9) Contingent liabilities

The Group does not have any contingent liability as at 31st December 2002 (31st December 2001: nil).

(10) Credit policy

The credit terms given to customers vary and are generally based on the financial strengths of individual customers. The credit terms range from cash on delivery to 90 days from date of invoice.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan
Dr. Lim Yin Cheng
Mr. Tam Kam Biu William
Mr. Leung Lap Fu Warren
Mr. Lau Man Kin
Mr. Lun Pui Kan
Mr. Fung Siu To Clement
Mr. Kwan Po Lam Phileas
Mr. Tao Shi
Mr. Kwan Kin Chung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

COMPLIANCE OFFICER

Mr. Tam Kam Biu William

AUTHORIZED REPRESENTATIVES

Dr. Lim Yin Cheng
Mr. Tam Kam Biu William

COMPANY SECRETARY

Ms. Chiu Yuk Ching, ACIS

QUALIFIED ACCOUNTANT

Mr. Tam Kam Biu William

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

PO Box 309
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Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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33 Lockhart Road
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1901-5, 19th Floor
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LEGAL ADVISERS

as to Hong Kong law
Stephenson Harwood & Lo
18th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to Cayman Islands law
Maples and Calder Asia
1504 One International Finance Centre
1 Harbour View Street
Hong Kong

FINANCIAL ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
673 Nathan Road
Mongkok, Kowloon
Hong Kong

The Development Bank of Singapore Limited
16/F Man Yee Building
68 Des Voeux Road Central
Hong Kong

STOCK CODE

Share	8129
Warrants	8355

WEBSITE ADDRESS

www.q9tech.com
www.qcode.com
www.qcode.com.tw

Corporate Profile

The Year 2002 was a challenging one for the Group. Whilst the Group completed and marketed a number of versions of Q9 CIS including award winning Q9 English version, which were well received by both the end users and a number of OEM customers, the Group's financial results for the year was far from being profitable.

As stated in the Annual Report of the Group in 2001, the main thrust of the Group's business strategy was to establish Q9 CIS as the standard Chinese CIS in the Greater China market, both in the end user and the OEM markets. The Group's marketing effort in penetrating the end user markets in the Greater China market, with the exception of Hong Kong, encountered a number of difficulties:

1. It is difficult to recover the advertising and promotion expenses incurred for a single product, Q9 CIS software package for the end users. In contrast, the newly appointed national distributor in China has a range of 30 products, many of which could be bundled or embedded with Q9 CIS, and their advertising and promotion expenditures can be spread over multiple products under the same brand name, which lower the breakeven point on profitability.

2. It is costly and time consuming to engage a direct sales force to promote the Q9 CIS software package in the huge end user market in China. Despite the Group's appointment of a number of distributors in China who have a vast network of retail outlets, the sales of Q9 CIS to end users predominantly rely on personal selling by promoters stationed at various retail outlets. Whilst the Group could derive incremental profit contribution from its Q9 CIS software package sales from its direct sales operation in Hong Kong, the Group's direct sales operation in Taiwan and China were unprofitable.

In view of the above, the Group decided to leverage on the resources of the key strategic partners to market to end users, through Idall in China and Q9 Technology Corporation in Taiwan, and to OEM customers through the Group's direct sales force in collaboration with its strategic partners.

In the OEM market, the current marketing focus of the Group is to promote Q9 CIS to mobile and desktop phone manufacturers based in the Greater China region.

Management of the Group is fully aware that the Group has not yet achieved profitability. Management will maintain its business focus and marketing thrust in the most cost effective manner in the growing OEM market, and strive to achieve profitability and create positive values for the shareholders within the shortest time.

Dear Shareholders,

During the past year, the Group invested substantial amount of cash and resources on new product research and development and promotion of Q9 CIS to the end users in the Greater China market. The Group completed the development of Q9 CIS Chinese (XP) version and English version. Q9 English version was awarded in recognition of its excellence in design.

In 2002, the Group invested over HK$5.8 million in advertising and promotion to promote Q9 CIS to the end users in the Greater China market, and invested over HK$8 million in new products research and development. But we noted that the investment incurred by the Group have outweighed the immediate financial benefits which we could derive from such investment. As a result, the Group decided to take the following actions at the beginning of 2003:

a) The Group will significantly curtail its operating expenses and other overhead expenditure. The Group decided to limit total operating expenses in 2003 to less than half of the total operating expenses incurred in 2002.

b) The Group will significantly reduce investment and expenditure on the development and marketing of Q9 CIS software package.

c) The Group will focus its attention, resources and efforts in the promotion of Q9 CIS to OEM customers.

Management will maintain its business focus and marketing thrust in the most cost effective manner, and strive to achieve profitability and create positive values for the shareholders within the shortest time.

Leung Lap Yan
Chairman

Hong Kong, 14th March 2003

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

Below is a comparison of the actual use of proceeds and the projected use for the year ended 31st December 2002 as disclosed in the Prospectus of the Group by major items:

	Use of proceed by item	As disclosed in Prospectus	Actual in 2002
(1)	Advertising and Promotion	HK$5,958,000	HK$5,807,000
(2)	Establishment costs	HK$6,650,000	HK$1,656,000
(3)	Research & Development	HK$6,430,000	HK$8,037,500
	Total:	HK$19,038,000	HK$15,500,500

ESTABLISHING FURTHER DISTRIBUTION CENTRES IN SHANGHAI, BEIJING AND CHONGQING IN THE PRC

The Group's intention was to establish and maintain a profitable distribution centre in Shenzhen, prior to establishing more distribution centres in other cities in the PRC. Following the establishment of the first distribution centre of the Group in Shenzhen, the Group was unable to achieve its profits objective for the first distribution centre, and decided to halt the plan to establish further distribution centres in Shanghai, Beijing and Chongqing in the PRC.

LAUNCHING Q9 CIS IN THE JAPANESE MARKET AND THE KOREAN MARKET

The Group decided to defer launching Q9 CIS in the Japanese and Korean Market until definite prospects are identified, as the Group intends to focus its marketing efforts in the Greater China market, and not to divert attention and resources in other markets as originally planned.

CONTINUING ITS MARKETING CAMPAIGN IN THE GREATER CHINA MARKET

The Group launched a number of major marketing campaigns and participated in a number of promotional events during 2002, targeting educational institutions and the end users in the Greater China market. The Group collaborated with Hong Kong IT Skills Assessment Centre of the Vocational Training Council during the year; resulting in Q9 CIS being the only acceptable numeric key based Chinese input assessment certification in Hong Kong. As the resources required to successfully implement these marketing campaigns and promotional events are substantial and the results uncertain, the Group has decided to revise its marketing strategies going forward.

The Group signed an agreement with Shantou Idall Electronic Company Ltd ("Idall") in February 2003, under which Idall was appointed as the sole National Distributor of Q9 CIS packaged software for the entire market in the PRC (excluding Hong Kong, Macau and Taiwan). Idall has a national distribution network for its range of 30 electronic products in China. Under the agreement, Idall will be responsible for all the costs related to production, advertising and promotion, and staff costs to support the sales and after sales services for Q9 CIS package software products. Idall has also agreed to achieve a successive incremental annual sales target and pay annual license fees based on the higher of the minimum sales target or the actual number of copies of Q9 CIS software package sold. Idall also intends to pre-install or embed Q9 CIS into some of its electronic products, and acts as an agent to promote Q9 CIS to other OEM customers, and agreed to pay a per unit license fee to the Group based on actual number of Idall's products preinstalled or embedded with Q9 CIS.

Q9 Technology Corporation issues new shares to a new shareholder, whereby the Group's equity interests in the subsidiary will be reduced from 51% to 42.5% with effect from 1st January 2003. The new shareholder will bring in capital funds for Q9 Technology Corporation, as well as expertise in the OEM business. As of the date of the report, Q9 Technology Corporation has signed a letter of intent with two digital set top box manufacturers who intend to embed Q9 CIS into their products as a result of the efforts of the new shareholder.

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

During the year, the Group completed the development of Q9 PDA version, Q9 2002 simplified Chinese version, traditional Chinese (XP) version and Q9 CIS English version. The Group worked with a number of OEM customers who manufacture a wide variety of electronic devices to embed both Q9 CIS Chinese and English version. Q9 CIS English version was awarded "Federation of Hong Kong Industries Consumer Product Design Award".

During the year, the Group was awarded two patents filed in Taiwan, one for a Chinese character encoding input method, and one for a matrix mapping system. The Group also filed patent applications for Q9 CIS English, Japanese and Korean versions.

While the Group continued its research and development efforts in application of Q9 CIS for use in the operating systems of different mobile phones and desktop phones, the Group decided to stop its further research and development activities on projects not requested by the customers. Hence, the Group has suspended the next phase of development of the mobile information platform, a second version of Q9 children's version and further development of Q9 CIS for other languages, until there is a specific request from the customer(s) as the next phase of development will be conducted in close cooperation with customers.

REVIEWING ITS MARKETING STRATEGIES FOR THE GROUP'S ASIAN MARKETS

As the Group's investment in new product research and development, and advertising and promotion of Q9 CIS packaged software to the end users outweighed the financial benefits derived from the sales of these products, the Group decided to significantly curtail investment in these activities from the beginning of 2003, and focus its efforts in the marketing of existing products to OEM customers.

SECURING FURTHER LICENSING AGREEMENTS

Actual progress in securing licensing agreements with OEM customers fell short of the Group's initial expectations. Up to the end of 2002, the Group signed licensing agreements with a total of eleven OEM manufacturers as compared with thirty-six OEM manufacturers as disclosed in the prospectus of the Group dated 10th May 2001. To date, it is estimated that the Group has licensed over 500,000 electronic devices with embedded Q9 CIS in the Greater China market.

The Group signed licensing agreements with two PDA OEM manufacturers, three desktop phone manufacturers, and six phone manufacturers. The Q9 CIS embedded desktop short message phones, manufactured by a Singapore based Group, is scheduled for market launch in second quarter of 2003 in Hong Kong.

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 54, is one of the founders of the Group and the chairman of the Company. He is responsible for the overall product development strategy and management of the Group. Apart from being an inventor, Mr. Leung is a well known script writer, having written such dramas as New Justice Pao, Dynasty and The Pride of Chao Zhou. From 1978 to 1980, Mr. Leung was employed as the manager of programme planning in Rediffusion Television and from 1986 to 1989 as the assistant to the controller of production in Television Broadcasts Limited. During the period 1983 to 1986 he was the director (drama) of the Singapore Broadcasting Corporation. In 1993 he moved to Taiwan where he developed the first version of QCode, a character input system. A year later he worked together with Mr. Lau Man Kin to upgrade QCode and founded the Group with Mr. Lau Man Kin in 1995. He is the brother of Mr. Warren Leung Lap Fu.

Dr. Lim Yin Cheng, aged 58, joined the Group in January 2000 as a director. In April 2001, Dr. Lim became the chief executive officer of the Company and is responsible for the overall strategic planning and management of the Group. He is the deputy chairman of Asia Standard International Group Limited ("Asia Standard"), Asia Orient Holdings Limited ("Asia Orient") and Asia Standard Hotel Group Limited. Dr. Lim has a doctorate degree in Philosophy from University of Washington, U.S.A.. He has over twenty five years of experience in engineering, project management and administration.

Mr. William Tam Kam Biu, aged 46, joined the Group in January 2000 as a non-executive director. In August 2000, Mr. Tam became the chief financial officer and in September 2000 as an executive director of the Company. Immediately before he joined the Group on a full time basis, Mr. Tam was the chief financial officer, company secretary and executive director of ViaGOLD Capital Limited, a company listed on the Australian Stock Exchange, which became the largest shareholder of Culturecom Holdings Limited ("Culturecom") in December 1998. Mr. Tam has remained a non-executive director of ViaGOLD Capital Limited. Mr. Tam has over eighteen years of experience in financial management and corporate finance, gained with a number of Hong Kong listed companies and international groups. Mr. Tam obtained a degree in Master of Business Administration in 1981 from York University in Toronto, Canada and became an associate member of the Hong Kong Society of Accountants in September 1987 and an associate of the Chartered Association of Certified Accountants in May 1988.

Mr. Warren Leung Lap Fu, aged 52, joined the Group in 1996 and is responsible primarily for sales and marketing and administration of the Group. For most of the 1970's, Mr. Leung worked for multinational companies, Wallem Ship Management Company Limited and C.N. Company, a member of the Swire Group, as a marine engineer specialising in automatic control systems projects. Between 1979 and 1981, he was a business manager with a subsidiary of the Kowloon Development Group. Thereafter he worked as a plant superintendent first with HSBC Property (Asia) Limited, then as senior engineer with the Macau Jockey Club and lastly with the Lee Garden Hotel Management Group. He has a number of engineering and technical qualifications, including being a high-tension electrical engineering worker registered by Electrical & Mechanical Services Department of Hong Kong Government. He is the brother of Mr. Leung Lap Yan.

Mr. Lau Man Kin, aged 33, is one of the founders of the Group and is responsible for research and product development. As a student, Mr. Lau won a number of computer competitions both locally and overseas. After he graduated from the University of Hong Kong in 1992 with a bachelor of science degree in computer science, he joined Compufont Limited, a subsidiary of Taiwan Dynalab Incorporation, as part of its research team developing a Chinese stroke based outline font. Later he was seconded to Microsoft's headquarters in Seattle, the United States where he contributed to the development of the Chinese true type system font for Microsoft's Windows Chinese edition. In 1994 he started his own software development company and later that year decided to co-operate with Mr. Leung Lap Yan, which later resulted in their forming the Group in 1995. In 1999, he was awarded as one of the Ten Outstanding Young Digi Persons in Hong Kong by Hong Kong Productivity Council and Hong Kong Junior Chamber.

Mr. Lun Pui Kan, aged 39, is the finance director of Asia Standard and Asia Orient. Mr. Lun has over fifteen year's experience in accounting and finance. He is a graduate of the University of Hong Kong where he was awarded a bachelor of science degree in engineering. He is also an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. He joined the Group in January 2000.

Mr. Clement Fung Siu To, aged 54, is the chairman of Asia Standard and Asia Orient and director of Asia Standard Hotel Group Limited. Mr. Fung is a holder of a bachelor of applied science degree in civil engineering. He has over twenty years of experience in project management and construction. He joined the Group in November 2000.

Mr. Phileas Kwan Po Lam, aged 44, is a director of Asia Orient and Asia Standard. Mr. Kwan has over ten years of experience in property sales, leasing and real estate management. He holds a diploma in business. He joined the Group in April 2001.

Mr. Kwan Kin Chung, aged 33, joined Culturecom Holdings Limited as vice president in December 1998 and was responsible for the restructuring of the group businesses and corporate investment. He holds a bachelor of arts in economics from Zhongshan University, Guangzhou. He joined the Group in February 2001.

Mr. Tao Shi, aged 34, joined Culturecom Holdings Limited as assistant general manager in May 2000 and was responsible for its corporate investment business. Mr. Tao has extensive experience in the financial markets in China and North America. He holds a master of business administration degree from Saint Mary's University in Canada and he is also a Chartered Financial Analyst. He joined the Group in February 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 35, graduated from the University of Hong Kong with a bachelor's degree in law. He is a solicitor admitted in Hong Kong and is a partner of the law firm of Chan, Lau & Wai. He has over nine years of experience in the legal profession. He was appointed as an independent non-executive director of the Company in September 2000.

Mr. Angus Tse Wang Cheung, aged 37, worked in a law firm prior to becoming a partner in the law firm of Angus Tse, Yuen & To. He was appointed as an independent non-executive director of the Company in September 2000.

The Directors submit their report together with the audited accounts for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 11 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 31.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

SUBSIDIARIES

Details of the subsidiaries of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 16 to the accounts.

FINANCIAL SUMMARY

A summary of the results of the Group for last five financial years and the assets and liabilities of the Group for the last three years is set out on page 59.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2002, determined in accordance with Section 34 of the Companies Law (2001 Revision) of the Cayman Islands, amounted to approximately HK$19,133,000 (2001: HK$90,158,000). The payment of a dividend and distribution out of the share premium account is however subject to a solvency test of the Company and the provisions of the Articles of Association of the Company.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in the Cayman Islands in respect of the Company's share capital.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 3,650,000 ordinary shares of HK$0.01 each of the Company were purchased by its subsidiaries at prices ranging from HK$0.045 to HK$0.070 per share through the Hong Kong Stock Exchange. During the month of August and September 2002, the purchase involved a total cash outlay of approximately HK$174,000, details of which are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		HK$	*HK$*	*HK$'000*
August 2002	700,000	0.070	0.048	39
September 2002	2,950,000	0.046	0.045	135
	3,650,000			174

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 31st December 2002.

DIRECTORS

The Directors during the year were:

Executive Directors:
Mr. Leung Lap Yan
Dr. Lim Yin Cheng
Mr. Tam Kam Biu William
Mr. Leung Lap Fu Warren
Mr. Lau Man Kin
Mr. Lun Pui Kan
Mr. Fung Siu To Clement
Mr. Kwan Po Lam Phileas
Mr. Kwan Kin Chung
Mr. Tao Shi

Independent Non-executive Directors:
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

In accordance with Article 116 of the Company's Articles of Association, all Directors retire by rotation and, being eligible, offer themselves for re-election.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 15 to 16.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Leung Lap Yan, Leung Lap Fu Warren, Lau Man Kin and Tam Kam Biu William has entered into a service contract with the Group. The service contracts for Messrs. Leung Lap Yan, Lau Man Kin and Leung Lap Fu Warren are for a term of three years from 1st May 2001 while that of Mr. Tam Kam Biu William is for a term of two years from 9th August 2000. Dr. Lim Yin Cheng has entered into a letter of appointment with the Company whereby he was appointed as the chief executive officer of the Company.

None of the Directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed pursuant to Chapter 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"):

		2002	2001
	Notes	***HK$'000***	*HK$'000*
Office and warehouse rental expenses	(i)	**1,302**	1,701
Building management fees	(ii)	**255**	403

Notes:

(i) Office and warehouse rental agreements were entered into with certain subsidiaries of two substantial shareholders of the Company, and were charged based on fixed monthly fees.

(ii) Building management fees were paid to a subsidiary of a substantial shareholder of the Company and were charged at a fixed monthly rate.

The non-executive directors have reviewed the continuing connected transactions set out in (i) and (ii) above and confirmed that the transactions were carried out in the usual and ordinary course of business, on normal commercial terms and in accordance with the terms of the underlying agreements.

The above transactions are also related party transactions as disclosed in the note 20 to the accounts.

DIRECTORS' INTERESTS IN SHARES, WARRANTS AND SHARE OPTIONS

(i) Shares

At 31st December 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 interests	Family interests	Corporate interests *(Note 1)*	Other interests	Total 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

(ii) Warrants

Directors	Subscription price *(Note 3)*	Corporate interests *(Note1)*	Exercised	Number of warrants as at 31st December 2002
Leung Lap Yan	HK$0.125 per share	5,120,000 *(Note 2)*	Nil	5,120,000
Lau Man Kin	HK$0.125 per share	1,587,200	Nil	1,587,200
Leung Lap Fu, Warren	HK$0.125 per share	716,800	Nil	716,800

Notes:

1. The shares and 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 shares and warrants held by Step Up Company Limited.

3. One warrant is convertible into one share at a subscription price of HK$0.125 each. The subscription period commenced on 8th February 2002 and will end on 7th August 2003.

Save as disclosed above, none of the Directors or their associates had, as at 31st December 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.

(iii) Directors rights to acquire shares

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 5th May 2001 and the Share Option Scheme approved and adopted by the shareholders on 7th May 2001 (the "Schemes"), the Directors may, at their discretion, invite full time or part-time employees including Directors of the Company, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Details of the share options outstanding as at 31st December 2002 which have been granted under the Schemes are as follows:

Director	Number of share options outstanding at 31st December 2002	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. Tam Kam Biu William	6,400,000	HK$0.36	See note 2 below	5/5/2001
Mr. Fung Siu To Clement	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. Kwan Po Lam Phileas	1,000,000	HK$0.45	18/5/2001 to 17/5/2011	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	18/5/2001 to 17/5/2011	18/5/2001

* Option exercise period commenced from the date of grant and terminating ten years thereafter.

** Options were granted pursuant to the Schemes on 5/5/2001 and 18/5/2001 respectively. Options were granted to each grantee in consideration of HK$1.00. No options granted pursuant to the Schemes had been exercised as at 31st December 2002.

The options may be exercised at any time within the option period provided that the options have been vested.

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 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
(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%

Save as disclosed above, during the year, none of the Directors or their associates was granted options to subscribe for shares of the Company.

SHARE OPTIONS SCHEME

Share options were granted to directors, executives, employees and advisors of the Company under the Pre-IPO Share Option Scheme adopted on 5th May 2001 and the Share Option Scheme adopted on 7th May 2001 ("Old Scheme"). The Old Scheme has been terminated at the annual general meeting of 2002 on 30th April 2002 without prejudice to the rights and benefits of and attached to those options granted thereunder which are outstanding as at that date. At the annual general meeting of the Company held on 30th April 2002, an ordinary resolution was duly passed under which a new share option scheme ("New Share Option Scheme") was adopted and approved by the shareholders. A summary of the New Share Option Scheme is as follows:

1. Purpose

   Motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group and attract and retain/maintain on-going relationship with the eligible participants.

2. Eligible participants

(i) any director (whether executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or advisers or contractor to the Group or any entity in which any member of the Group holds any interest;

(ii) any discretionary trust whose discretionary objects include any director (whether executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group; and

(iii) a company beneficially owned by any director (whether executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group.

3. Total number of shares available for issue

The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme must not in aggregate exceed 125,000,000 shares, representing about 10% of the shares in issue at the date of this report.

4. Maximum entitlement of each eligible participant

Unless approved by the shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 months period must not exceed 1 per cent of the shares in issue.

5. Time of exercise of option

An option shall be exercisable at any time during such period to be notified by the Board to each grantee, provided that no option shall be exercisable later than ten years after its date of grant.

6. Minimum period for which any option must be held

Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum period for which an option must be held before such an option can be exercised.

7. Amount payable upon acceptance of option

HK$1.00 is payable by each eligible participant to the Company on acceptance of an offer of an option, which shall be paid within 21 days from the date of the offer.

8. Basis of determining the exercise price

The exercise price must be at least the higher of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day, and (b) the average of the closing prices of the shares as shown on the daily quotations sheet of the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share.

9. The remaining life of the New Share Option Scheme

The New Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

During the year, no option has been granted or exercised under the New Share Option Scheme.

PRE-IPO SHARE OPTION SCHEME ADOPTED ON 5TH MAY 2001 AND SHARE OPTION SCHEME ADOPTED ON 7TH MAY 2001

Options to subscribe for up to an aggregate of 238,230,000 shares of HK$0.01 each at a subscription price ranging between HK$0.142 and HK$0.482 per share were granted to certain Directors, employees and advisors under the Schemes. Details of the options are set out as follows:

Grantee	Date of grant	Exercise price	Outstanding as at 1st January 2002	Exercise period	Lapsed *(note 1)*	Outstanding as at 31st December 2002
Directors	5/5/2001	HK$0.36	169,590,000	See note 3 below	—	169,590,000
Directors	5/5/2001	HK$0.36	27,140,000	See note 4 below	—	27,140,000
Directors	18/5/2001	HK$0.45	4,000,000	18/5/01 to 17/5/11	—	4,000,000
Employees	5/5/2001	HK$0.36	23,440,000	See note 4 below	14,430,000	9,010,000
Employees	18/5/2001	HK$0.45	720,000	18/5/01 to 17/5/11	—	720,000
Employees	19/6/2001	HK$0.482	200,000	19/6/01 to 18/6/11	200,000	—
Employees	11/10/2001	HK$0.142	580,000	11/10/01 to 10/10/11	480,000	100,000
Advisors	5/5/2001	HK$0.36	12,560,000	See note 4 below	—	12,560,000
			238,230,000		15,110,000	223,120,000

Notes:

1. These options granted to the employees were lapsed when they ceased employment with the Company.

2. No option has been exercised or granted under the Schemes during the year.

3.

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 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%

4.

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 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%

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of shareholder	Number of shares
Mega Fusion Limited	400,000,000
Asia Orient Holdings (BVI) Limited *(Note (i))*	400,200,000
Asia Orient Holdings Limited *(Note (ii))*	400,200,000
Mr. Poon Jing *(Note (iii))*	400,200,000
Step Up Company Limited	283,390,000
Mr. Leung Lap Yan *(Note (iv))*	283,390,000
Culture.com Technology (BVI) Limited	300,000,000
Culturecom Holdings (BVI) Limited *(Note (v))*	300,635,000
Culturecom Holdings Limited *(Note (vi))*	300,635,000

Notes:

(i) Asia Orient Holdings (BVI) Limited is deemed to be a substantial shareholder as Mega Fusion Limited is its wholly owned subsidiary.

(ii) Asia Orient Holdings Limited is deemed to be a substantial shareholder as Asia Orient Holdings (BVI) Limited is its wholly owned subsidiary.

(iii) Mr. Poon Jing is deemed to be a substantial shareholder as he has a controlling interest in Asia Orient Holdings Limited.

(iv) Mr. Leung Lap Yan is deemed to be a substantial shareholder as he has a controlling interest in Step Up Company Limited.

(v) 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.

(vi) Culturecom Holdings Limited is deemed to be a substantial shareholder as Culturecom Holdings (BVI) Limited is its wholly owned subsidiary.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	32.2%
— five largest suppliers combined	76.2%
Sales	
— the largest customer	12.0%
— five largest customers combined	21.7%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTOR' INTERESTS IN COMPETING BUSINESSES

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.

SPONSOR'S INTEREST

As updated and notified by Company's sponsor, Anglo Chinese Corporate Finance, Limited ("Anglo Chinese"), 3,660,000 shares and 850,000 shares of the Company are held by a holding company and two directors of Anglo Chinese as at 31st December 2002. Save 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 an agreement dated 18th 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 18th May 2001 to 31st December 2003.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Committee comprises two independent non-executive directors, namely Mr. Ip Chi Wai and Mr. Tse Wang Cheung Angus. The terms of reference of the audit committee have been established with regard to Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. During the year, three meetings have been held.

SUBSEQUENT EVENTS

Details of the significant events subsequent to the balance sheet date are set out in note 21 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tam Kam Biu, William
Chairman of the meeting

Hong Kong, 14th March 2003

AUDITORS' REPORT TO THE SHAREHOLDERS OF Q9 TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 31 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14th March 2003

Consolidated Profit and Loss Account

for the year ended 31st December 2002

	Note	2002 HK$'000	2001 HK$'000
Turnover	2	4,293	8,047
Cost of sales		(687)	(857)
Gross profit		3,606	7,190
Other revenues	2	628	1,208
Selling and distribution expenses		(11,237)	(9,323)
Research and development expenses		(11,512)	(7,353)
General and administrative expenses		(14,228)	(11,271)
Operating loss	3	(32,743)	(19,549)
Minority interests		598	—
Loss attributable to shareholders	8	(32,145)	(19,549)
		HK Cent	HK Cent
Loss per share	9	(2.57)	(1.69)

Consolidated Balance Sheet

As at 31st December 2002

	Note	2002	2001
		HK$'000	*HK$'000*
Intangible assets	10	—	5,412
Fixed assets	12	3,023	2,953
Current assets			
Inventories	13	1,198	1,047
Current portion of deferred expenditure	10	—	7,428
Accounts receivable	14	844	1,672
Deposits and prepayments		1,003	1,554
Bank balances and cash		33,670	46,859
		36,715	58,560
Current liabilities			
Accounts payable	15	263	819
Other payables and accruals		1,438	1,302
		1,701	2,121
Net current assets		35,014	56,439
		38,037	64,804
Financed by:			
Share capital	16	12,464	12,500
Reserves	17	25,383	52,304
Shareholders' funds		37,847	64,804
Minority interests		190	—
		38,037	64,804

Leung Lap Yan	Tam Kam Biu, William
Director	*Director*

Balance Sheet

As at 31st December 2002

	Note	2002	2001
		HK$'000	*HK$'000*
Investments in subsidiaries	11	**37,532**	102,268
Current assets			
Deposits and prepayments		**—**	202
Bank balances and cash		**641**	557
		641	759
Current liabilities			
Other payables and accruals		**326**	369
Net current assets		**315**	390
		37,847	102,658
Financed by:			
Share capital	16	**12,464**	12,500
Reserves	17	**25,383**	90,158
Shareholders' funds		**37,847**	102,658

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Consolidated Statement of Changes in Equity

for the year ended 31st December 2002

	Note	2002	2001
		HK$'000	*HK$'000*
Total equity as at 1st January		**64,804**	(11,774)
Loss for the year	17	**(32,145)**	(19,549)
Issue of shares		**—**	112,500
Issue of warrants	17	**6,250**	—
Repurchase of shares	16, 17	**(174)**	—
Warrant issue expenses	17	**(888)**	—
Share issue expenses	17	**—**	(16,373)
Total equity as at 31st December		**37,847**	64,804

Consolidated Cash Flow Statement

for the year ended 31st December 2002

	Note	2002	2001
		HK$'000	*HK$'000*
Net cash outflow from operating activities	18(a)	(17,520)	(34,518)
Investing activities			
Purchase of fixed assets		(1,044)	(1,304)
Sale of fixed assets		10	1
Interest received		628	896
Purchase of a subsidiary, net of cash acquired	18(c)	(451)	—
Net cash outflow from investing activities		(857)	(407)
Financing activities			
Proceeds from issue of new shares		—	112,500
Proceeds from issue of warrants		6,250	—
Share issue expenses		—	(16,373)
Warrant issue expenses		(888)	—
Loans from shareholders		—	7,500
Repayment of loans from shareholders		—	(24,611)
Repurchase of shares		(174)	—
Net cash inflow from financing	18(b)	5,188	79,016
(Decrease)/increase in cash and cash equivalents		(13,189)	44,091
Cash and cash equivalents at 1st January		46,859	2,768
Cash and cash equivalents at 31st December		33,670	46,859
Analysis of balances of cash and cash equivalents			
Bank balances and cash		33,670	46,859

1 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these standards does not have any material impact to the current or past years' results. Certain presentational changes have been made upon adoption of SSAP 1 (revised) and SSAP 15 (revised). The adoption of SSAP 11 (revised) and SSAP 34 (revised) does not have any material impact to the Group's results.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of five years.

(e) Deferred expenditure

Deferred expenditure represents amounts paid in advance for consultancy, development and marketing related services which are to be provided to the Group over a specified service period. These payments are stated at cost and are amortised on a straight-line basis over the period of the service contract.

(f) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of goodwill and deferred expenditure is reviewed for impairment losses. An impairment loss is recognised in the profit and loss account for the amount by which the carrying amount exceeds its recoverable amount.

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are separately identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 3 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(l) Assets under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the period of the leases.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss accounts of foreign subsidiaries were translated at closing rate. This is a change in accounting policy, however, the effect of this change is not material to the current and prior years and comparatives have not been restated.

(n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Mandatory provident fund

The Group contributes to a Mandatory Provident Fund Scheme where the Group and employees are required to contribute 5% of the employees' relevant income (capped at HK$1,000 for staff member's contribution). Such contributions are expenses to the profit and loss account as incurred.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from licensing fee income is recognised in accordance with the underlying licensing agreement, which is generally when the rights to receive payment are established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

(q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in software and embedded systems development. Revenues recognised during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Sale of goods at invoiced value, net of returns and discounts	3,553	7,790
Licensing fee income	740	257
	4,293	8,047
Other revenues		
Interest income	628	896
Others	—	312
	628	1,208
Total revenue	4,921	9,255

In accordance with the Group's internal financial reporting, the Group has determined that business segment is presented as the primary reporting format and geographic segment as the secondary reporting format.

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

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segment analysis is as follows:

	Turnover 2002 *HK$'000*	Segment Results 2002 *HK$'000*	Total Assets 2002 *HK$'000*	Capital Expenditure 2002 *HK$'000*
Hong Kong	3,274	(29,963)	36,652	473
China	953	(1,559)	2,541	499
Taiwan	66	(1,221)	545	72
	4,293	(32,743)	39,738	1,044

	Turnover 2001 *HK$'000*	Segment Results 2001 *HK$'000*	Total Assets 2001 *HK$'000*	Capital Expenditure 2001 *HK$'000*
Hong Kong	8,020	(18,998)	64,828	683
China	27	(551)	2,097	621
	8,047	(19,549)	66,925	1,304

3 OPERATING LOSS

	2002	2001
	HK$'000	*HK$'000*
Operating loss is stated after charging the following:		
Auditors' remuneration		
Current year	281	350
Underprovision in prior years	—	42
Amortisation *(Note 10)*		
Goodwill	122	—
Deferred expenditure	6,444	3,660
Impairment *(Note 10)*		
Goodwill	791	—
Deferred expenditure	6,396	—
Depreciation	1,130	818
Directors' emoluments *(Note 5)*	5,195	4,292
Loss on disposal of fixed assets	141	392
Operating lease rentals in respect of office premises	2,416	2,487
Staff costs	7,696	9,494

4 STAFF COSTS (EXCLUDING DIRECTORS' REMUNERATION)

	2002	2001
	HK$'000	*HK$'000*
Wages and salaries and pension costs	7,350	9,362
Unutilised annual leave	170	—
Termination benefits	176	132
	7,696	9,494

5 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to Directors of the Company during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Directors' fees	**—**	—
Basic salaries, allowances and other benefits-in-kind	**4,016**	3,597
Discretionary bonuses	**1,119**	640
Contributions to retirement benefit schemes	**60**	55
	5,195	4,292

Five executive Directors received individual emoluments for the year ended 31st December 2002 of approximately HK$1,492,000 (2001: HK$1,484,000), HK$1,425,000 (2001: HK$824,000), HK$1,250,000 (2001: HK$740,000), HK$544,000 (2001: HK$640,000), and HK$484,000 (2001: HK$604,000) respectively.

None of the remaining Directors (including non-executive Directors) received or will receive any fees or emoluments in respect of their services to the Company for the year (2001: Nil).

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

In addition to the above, details of share options granted to the Directors are disclosed in Note 16 to the accounts.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also the Directors and their emoluments are reflected in the analysis presented above.

6 RETIREMENT BENEFITS

The Group did not provide retirement benefits to its employees prior to 1st December 2000. With effect from 1st December 2000, the Group has set up a Mandatory Provident Fund Scheme for its Hong Kong employees. The Group contributes 5% of the employees' relevant income each month, subject to the statutory maximum of HK$1,000 per person. Total contributions paid and payable by the Group into the scheme and charged to the profit and loss account during the year amounted to HK$273,000 (2001: HK$464,000).

7 TAXATION

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2001: Nil).

Deferred taxation assets/(liabilities) have not been provided in respect of the following:

	2002	2001
	HK$'000	*HK$'000*
Tax losses	10,764	6,237
Accelerated depreciation allowances	(170)	(145)
	10,594	6,092

At 31st December 2002, the Group had estimated cumulative tax losses of HK$67,272,000 which can be carried forward to be offset against future taxable profits. The potential deferred tax asset has not been recognised.

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$69,999,000 (2001: HK$826,000).

9 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK$32,145,000 (2001: HK$19,549,000) and on the weighted average of 1,248,827,000 (2001: 1,155,479,000) shares in issue during the year.

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

10 INTANGIBLE ASSETS

Group

	Goodwill	Deferred expenditure	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31st December 2002			
Opening net book amount	—	12,840	12,840
Acquisition of a subsidiary *(Note 18(c))*	913	—	913
Amortisation charge	(122)	(6,444)	(6,566)
Impairment charge	(791)	(6,396)	(7,187)
	—	—	—
At 31st December 2001			
Cost	—	16,500	16,500
Accumulated amortisation and impairment losses	—	(3,660)	(3,660)
	—	12,840	12,840
Current portion included under current assets	—	(7,428)	(7,428)
	—	5,412	5,412

11 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	7,501	7,501
Amounts due from subsidiaries *(Note (a))*	98,533	94,767
	106,034	102,268
Provision for diminution in value of investments in and amounts due from subsidiaries	(68,502)	—
	37,532	102,268

Notes:

(a) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

11 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(b) The following is a list of the Group's subsidiaries as at 31st December 2002:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued and paid up/registered capital	Interest held 2002	Interest held 2001
Directly held					
Q9 Technology (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	**100%**	100%
Indirectly held					
Qcode Information Technology Limited	Hong Kong, limited liability company	Computer software development and retail in Hong Kong	500,000 ordinary shares of HK$1 each	**100%**	100%
Qcode Chinese Computer Limited	Hong Kong, limited liability company	Holding of patents in Hong Kong	600,000 ordinary shares of HK$1 each	**100%**	100%
Qcode Technology Services Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	**100%**	100%
Q9 Technology (Shenzhen) Limited	Peoples' Republic of China ("PRC"), limited liability company	Computer software development and retail in the PRC	HK$2,000,000	**100%**	100%
Q9 Technology Corporation	Taiwan, limited liability company	Computer software development and retail in Taiwan	1,500,000 ordinary shares of NT$10 each	**51%**	—

(c) On 30th April 2002, the Group acquired 51% interest in Q9 Technology Corporation for HK$1,733,000, satisfied in cash.

12 FIXED ASSETS

Group

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
At 1st January 2002	1,319	3,469	420	5,208
Additions	538	506	—	1,044
Acquisition of a subsidiary *(Note 18(c))*	—	307	—	307
Disposals	(23)	(267)	—	(290)
At 31st December 2002	1,834	4,015	420	6,269
Accumulated depreciation				
At 1st January 2002	649	1,543	63	2,255
Charge for the year	289	762	79	1,130
Disposals	(9)	(130)	—	(139)
At 31st December 2002	929	2,175	142	3,246
Net book value				
At 31st December 2002	905	1,840	278	3,023
At 31st December 2001	670	1,926	357	2,953

13 INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Merchandise	537	684
Finished goods	661	363
	1,198	1,047

At 31st December 2002, the carrying amounts of inventories that are carried at net realisable value amounted to HK$1,198,000 (2001: HK$1,047,000).

14 ACCOUNTS RECEIVABLE

At 31st December 2002, the ageing analysis of the accounts receivable was as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	719	215
31-90 days	99	132
91-180 days	26	987
Over 180 days	—	338
	844	1,672

The credit terms given to customers vary and are generally based on the financial strengths of individual customers.

15 ACCOUNTS PAYABLE

At 31st December 2002, the ageing analysis of the accounts payable was as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	180	281
31-90 days	32	154
91-180 days	8	131
Over 180 days	43	253
	263	819

16 SHARE CAPITAL

	Notes	Authorised Number of shares	Authorised Par value of HK$0.01 each HK$
At 13th March 2000 (incorporation date), shares of HK$0.1 each	(a)	3,500,000	350,000
Subdivision of share capital from HK$0.1 each to HK$0.01 each in 2001	(c)	31,500,000	—
		35,000,000	350,000
Increase of authorised share capital in 2001	(d)(i)	49,965,000,000	499,650,000
At 31st December 2001 and 31st December 2002		50,000,000,000	500,000,000

	Note	Issued and fully paid Number of shares issued	Issued and fully paid Par value of HK$0.01 each HK$
At 13th March 2000 (incorporation date) Shares allotted and issued prior to the Reorganisation	(c)	100	1
Shares issued as part of the Reorganisation	(d)(ii)	499,999,900	4,999,999
Issue of shares upon listing	(d)(iii)	250,000,000	2,500,000
Capitalisation issue	(d)(iv)	500,000,000	5,000,000
At 31st December 2001		1,250,000,000	12,500,000
Repurchase of shares	(f)	(3,650,000)	(36,500)
At 31st December 2002		1,246,350,000	12,463,500

16 SHARE CAPITAL *(Continued)*

The following alternations in the Company's authorised and issued share capital took place during the period from 13th March 2000 (date of incorporation) to 31st December 2002:

(a) Upon incorporation, the authorised share capital of the Company was HK$350,000 divided into 3,500,000 shares of HK$0.1 each.

(b) On 13th March 2000, 2 shares of HK$0.1 each were issued and allotted as subscriber shares upon incorporation. On 19th September 2000, 8 shares of HK$0.1 each were issued and allotted for cash.

(c) In accordance with a special resolution passed by the shareholders on 25th September 2000, the authorised share capital of the Company was subdivided into 35,000,000 ordinary shares of HK$0.01 each. The 10 shares then in issue were cancelled and 100 new shares of HK$0.01 each were issued to the then shareholders.

(d) In preparation for the listing of the Company's shares on the GEM, the following changes in the Company's authorised and issued share capital took place:

(i) In accordance with the resolutions passed by the shareholders in an extraordinary general meeting held on 7th May 2001, the authorised share capital of the Company was increased from HK$350,000 to HK$500,000,000 by the creation of an additional 49,965,000,000 shares of HK$0.01 each.

(ii) On 7th May 2001, the Company allotted and issued an aggregate of 499,999,900 new shares of HK$0.01 each credited as fully paid at par in consideration and in exchange for the acquisition of the entire issued share capital of Q9 Technology (BVI) Limited from Signal Technology Limited and the capitalisation of a loan of HK$7,500,000 owing to Signal Technology Limited by Q9 Technology (BVI) Limited.

(iii) On 18th May 2001, 250,000,000 shares of HK$0.01 each were issued at a subscription price of HK$0.45 per share upon the listing of the Company's shares on the GEM. The Group raised total cash, before share issue and listing expenses, of HK$112,500,000.

(iv) Pursuant to a special resolution passed by the shareholders on 7th May 2001, a total of HK$5,000,000 of the share premium account, which arose from the share issue as set out in (iii) above, was capitalised as the share capital of the Company and 500,000,000 shares were allotted to the then existing shareholders of the Company.

16 SHARE CAPITAL *(Continued)*

(e) On 5th February 2002, the Company placed a total of 250,000,000 warrants on the GEM to third parties. The warrant holders have the right to subscribe for shares of the Company of HK$0.01 each at an exercise price of HK$0.125 each, subject to adjustment. The subscription period commences on 8th February 2002 and will expire on 7th August 2003. If the warrants are fully exercised, the Company will be required to issue a further 250,000,000 ordinary shares. During the year, no warrants were exercised.

(f) During 2002, the Company repurchased 3,650,000 of its own shares at an aggregate consideration of HK$174,000. All the shares repurchased were subsequently cancelled.

(g) Pursuant to the adoption of the Pre-IPO Share Option Scheme on 5th May 2001 and the Share Option Scheme adopted on 7th May 2001 (the "Schemes"), share options to subscribe for shares were granted to certain Directors of the Company and employees of the Group respectively. During 2001, options to subscribe for 238,230,000 ordinary shares of HK$0.01 each at a subscription price ranging between HK$0.142 and HK$0.482 per share were granted to certain Directors and employees under the Schemes. None of these options were exercised during the year. However, during the year, 15,110,000 options of the options granted to employees were lapsed.

The following are details of outstanding share options granted under the Schemes:

Grantee	Date of grant	Exercise price	As at 1st January 2002	Exercised	Lapsed	As at 31st December 2002
Dr. Lim Yin Cheng	5/5/2001	HK$0.36	84,480,000	—	—	84,480,000
Mr. Leung Lap Yan	5/5/2001	HK$0.36	71,720,000	—	—	71,720,000
Mr. Leung Lap Fu, Warren	5/5/2001	HK$0.36	14,470,000	—	—	14,470,000
Mr. Lau Man Kin	5/5/2001	HK$0.36	13,390,000	—	—	13,390,000
Mr. Tam Kam Biu, William	5/5/2001	HK$0.36	6,400,000	—	—	6,400,000
Mr. Fung Siu To, Clement	5/5/2001	HK$0.36	2,560,000	—	—	2,560,000
Mr. Kwan Kin Chung	5/5/2001	HK$0.36	1,150,000	—	—	1,150,000
Mr. Tao Shi	5/5/2001	HK$0.36	640,000	—	—	640,000
Mr. Kwan Po Lam, Phileas	18/5/2001	HK$0.45	1,000,000	—	—	1,000,000
Mr. Lun Pui Kan	5/5/2001	HK$0.36	1,920,000	—	—	1,920,000
Mr. Lun Pui Kan	18/5/2001	HK$0.45	3,000,000	—	—	3,000,000
Employees	5/5/2001	HK$0.36	23,440,000	—	14,430,000	9,010,000
Employees	18/5/2001	HK$0.45	720,000	—	—	720,000
Employees	19/6/2001	HK$0.482	200,000	—	200,000	—
Employees	11/10/2001	HK$0.142	580,000	—	480,000	100,000
Advisors	5/5/2001	HK$0.36	12,560,000	—	—	12,560,000
			238,230,000	—	15,110,000	223,120,000

17 RESERVES

Group

	Share premium HK$'000	Capital redemption reserve HK$'000	Warrants reserve HK$'000	Reorganisation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st 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 *(Note 16(d) (iv))*	(5,000)	—	—	—	—	(5,000)
Loss for the year retained	—	—	—	—	(19,549)	(19,549)
At 31st December 2001	88,627	—	—	3,000	(39,323)	52,304
At 1st January 2002	88,627	—	—	3,000	(39,323)	52,304
Issue of warrants *(Note 16(e))*	—	—	6,250	—	—	6,250
Warrant issue expenses	(888)	—	—	—	—	(888)
Repurchase of shares *(Note 16(f))*						
- Premium paid on repurchase	(138)	—	—	—	—	(138)
- Transfer between reserves	—	37	—	—	(37)	—
Loss for the year retained	—	—	—	—	(32,145)	(32,145)
At 31st December 2002	87,601	37	6,250	3,000	(71,505)	25,383

17 RESERVES *(Continued)*

Company

	Share premium *HK$'000*	Warrants reserve *HK$'000*	Reorganisation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Reserve arising from Reorganisation	—	—	2,501	—	2,501
Premium on issue of shares upon listing	110,000	—	—	—	110,000
Share issue expenses	(16,373)	—	—	—	(16,373)
Capitalisation issue *(Note 16(d)(iv))*	(5,000)	—	—	—	(5,000)
Loss for the period retained	—	—	—	(970)	(970)
At 31st December 2001	88,627	—	2,501	(970)	90,158
At 1st January 2002	88,627	—	2,501	(970)	90,158
Issue of warrants *(Note 16(e))*	—	6,250	—	—	6,250
Warrant issue expenses	(888)	—	—	—	(888)
Repurchase of shares (Note 16(f))	(138)	—	—	—	(138)
Loss for the year retained	—	—	—	(69,999)	(69, 999)
At 31st December 2002	87,601	6,250	2,501	(70,969)	25,383

Note:

The reorganisation reserve of the Group and the Company arising from the Reorganisation represent the difference between the nominal value of the shares of the subsidiaries acquired and the HK$7,500,000 loan capitalised and the nominal value of the shares issued by the Company as the consideration thereof.

18 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash outflow from operating activities

	2002 HK$'000	2001 HK$'000
Operating loss	(32,743)	(19,549)
Interest income	(628)	(896)
Depreciation	1,130	818
Amortisation of deferred expenditure and goodwill	6,566	3,660
Impairment of deferred expenditure and goodwill	7,187	—
Loss on disposal of fixed assets	141	392
Operating loss before working capital changes	(18,347)	(15,575)
Increase in inventories	(95)	(455)
Increase in deferred expenditure	—	(16,500)
Decrease in accounts receivable, deposits and prepayments	1,433	1,055
Decrease in accounts payable, other payables and accruals	(511)	(1,634)
Decrease in amounts due to Directors and related companies	—	(1,409)
Net cash outflow from operating activities	(17,520)	(34,518)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Warrants reserve		Loans from shareholders and a related company		Minority interests		Total	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
At 1st January	101,127	5,000	—	—	—	17,111	—	—	101,127	22,111
Net cash inflows/(outflows) from financing	(1,062)	96,127	6,250	—	—	(17,111)	—	—	5,188	79,016
Acquisition of a subsidiary	—	—	—	—	—	—	788	—	788	—
Minority interests' share of loss	—	—	—	—	—	—	(598)	—	(598)	—
At 31st December	100,065	101,127	6,250	—	—	—	190	—	106,505	101,127

18 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Purchase of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired		
Fixed assets	307	—
Inventories	56	—
Deposits and prepayments	54	—
Bank balances and cash	1,282	—
Other payables and accruals	(91)	—
Minority interests	(788)	—
	820	—
Goodwill	913	—
	1,733	—
Satisfied by		
Cash	1,733	—

Analysis of the net outflow in respect of the purchase of a subsidiary:

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	1,733	—
Bank balances and cash in hand acquired	(1,282)	—
Net cash outflow in respect of the purchase of a subsidiary	451	—

The subsidiary acquired utilised HK$1,134,000 of the Group's net operating cash flows and paid HK$67,000 in respect of investing activities.

19 COMMITMENTS

(a) Capital commitments

	Group 2002 HK$'000	Group 2001 HK$'000
Authorised but not contracted for	—	1,720
Contracted but not provided for	—	—
	—	1,720

(b) Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Not later than one year	**1,448**	2,611
Later than one year and not later than five years	**528**	1,962
	1,976	4,573

20 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, were as follows:

	Notes	2002 HK$'000	2001 HK$'000
Continuing transactions			
Office and warehouse rental expenses	(a)	1,302	1,701
Building management fees	(b)	255	403

Notes:

(a) Office and warehouse rental agreements were entered into with certain subsidiaries of two substantial shareholders of the Group, and were charged based on fixed monthly fees.

(b) Building management fees were paid to a subsidiary of a substantial shareholder and were charged at a fixed monthly rate.

21 SUBSEQUENT EVENTS

On 1st January 2003, the Group's subsidiary in Taiwan, Q9 Technology Corporation, issued a total of 300,000 ordinary shares to third parties. In consequence, the Group's equity interest would be reduced from 51% to 42.5%.

22 APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 14th March 2003.

	Year ended 31st December				
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
(Loss)/profit attributable to shareholders	**(32,145)**	(19,549)	(19,034)	(1,015)	1,027
Assets and liabilities					
Fixed assets	**3,023**	2,953	2,860		
Other assets	**36,715**	63,972	7,641		
Liabilities and minority interests	**(1,701)**	(2,121)	(22,275)		
	38,037	64,804	(11,774)		

Note:

The financial summary of the Group for the years 1998 to 2002 has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the Reorganisation in May 2001 had been in existence throughout the relevant years.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Q9 Technology Holdings Limited (the "Company") will be held at Empire Hotel, Basement 1, 33 Hennessy Road, Wanchai, Hong Kong on Friday, 25th April 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December 2002;

2. To re-elect retiring directors and authorise the board of directors to fix the directors' remuneration;

3. To re-appoint auditors and authorise the board of directors to fix their remuneration; and

As special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

4. "THAT

   (a) the exercise by the directors of the Company during the Relevant Period (as defined below) all the powers of the Company to allot, issue or otherwise deal with shares of the Company ("Shares") and securities convertible into Shares or warrants or similar rights to subscribe for Shares and to make or grant offers, agreements or options (including bonds, warrants and debentures convertible into Shares) which might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) and (b) of this resolution, otherwise than pursuant to:

      (i) a rights issue (as defined below);

      (ii) the exercise of rights of subscription or conversion attaching to any bonus issue by the Company, or any securities which are convertible into Shares;

      (iii) the exercise of subscription or conversion right under the terms of any warrants of the Company or any option granted under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of options to subscribe for or rights to acquire Shares; and

      (iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of the Company;

   shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the date of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

(iii) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting.

"rights issue" means the allotment, issue or grant of Shares pursuant to an offer of shares open for a period fixed by the directors of the Company to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange)."

5. "THAT

(a) the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (c) of this resolution) of all powers of the Company to repurchase the Shares and/or warrants of the Company listed on the Stock Exchange or on any other stock exchange on which the Company's Shares or warrants may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or that of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares or warrants of the Company to be repurchased by the Company pursuant to paragraph (a) of this resolution during the Relevant Period shall not exceed (i) 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution, or (ii) 10% of the aggregate amount of the outstanding warrants of the Company as at the date of passing of this resolution respectively, and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. "**THAT** subject to the passing of resolutions no. 4 and 5 set out in the notice convening this meeting, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue or otherwise deal with Shares or securities pursuant to resolution no. 4 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the Shares repurchased by the Company since the granting of that general mandate."

By order of the Board
Chiu Yuk Ching
Secretary

Dated 28th March 2003

Principal place of business in Hong Kong:
22nd Floor, Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai
Hong Kong

Notes:

(i) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(ii) In order to be valid, the proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company's principal place of business in Hong Kong at 22nd Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting or any adjourned meeting.

(iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iv) An explanatory statement containing further details regarding ordinary resolution no. 5, as required by the Rules Governing the Listing of Securities on GEM will be despatched to the members of the Company.