



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

First Quarterly Report 2003



* For Identification purpose only

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This report, for which the directors of Q9 Technology Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- The Group recorded turnover of HK\$1,536,000 for the three months ended 31st March 2003, representing an increase of 6.7% from the corresponding period of last year.
- The Group recorded OEM licensing revenue of HK\$392,000 for the three months ended 31st March 2003. OEM licensing revenue for the first quarter of 2003 represents about 25.5% of turnover for the quarter, as compared to 0% in first quarter of 2002. Two OEM license agreements were signed during the first quarter of 2003, one with a PRC based desk-top phone manufacturer and one with a PRC based mobile phone manufacturer.
- Packaged software sales for the first quarter of 2003 recorded a decrease of 22% from the corresponding period of previous year.
- The Group recorded a net loss attributable to shareholders for the three months ended 31st March 2003 of HK\$2,360,000 (first quarter of 2002: net loss attributable to shareholders of HK\$5,783,000).
- The Group substantially reduced its operating expenses in the first quarter of 2003, whereby research and development expenses, advertising and promotion expenses, general and administrative expenses, and total operating expenses were reduced by 73.3%, 54.6%, 25% and 49.6% respectively, as compared to first quarter of 2002.
- The Group continues to focus its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes, and steady progress have been made.

THREE MONTH RESULTS (UNAUDITED)

The Board of Directors (the "Directors") of Q9 Technology Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31st March 2003, together with the unaudited comparative figures for the corresponding period in 2002 as follows:

	Notes	Unaudited Three months ended 31st March	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	1,536	1,440
Cost of sales		(185)	(225)
Gross profit		1,351	1,215
Other revenues	2	88	184
Selling and distribution expenses		(978)	(2,154)
Research and development expenses		(621)	(2,329)
General and administrative expenses		(2,024)	(2,699)
Operating loss		(2,184)	(5,783)
Share of losses of associates		(176)	0
Loss attributable to shareholders		(2,360)	(5,783)
		<i>HK Cent</i>	<i>HK Cent</i>
Loss per share	4	0.19	0.46

Notes:

1. **Basis of presentation**

(a) *Basis of preparation and principal accounting policies*

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

(b) *Associated company*

An associated company is a company, not being a subsidiary and a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated company for the three months ended 31st March 2003.

2. **Turnover, revenue and segment information**

Turnover and other revenues of the Group are as follows:

	Unaudited Three months ended 31st March	
	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of goods at invoiced value, net of returns and discounts	1,536	1,440
Other revenues		
Interest income	88	174
Others	—	10
	88	184
Total revenues	1,624	1,624

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.

Turnover by geographical segment is as follows:-

	Unaudited	
	Three months ended	
	31st March	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong	1,149	1,401
PRC	387	39
	<u>1,536</u>	<u>1,440</u>

3. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the three months ended 31st March 2003 (31st March 2002: Nil). The subsidiaries operating in Mainland China have no assessable profits during the relevant periods and accordingly no provision for Mainland China profits tax has been made.

No provision for deferred tax has been made in the accounts as the tax effect of timing differences is not material to the Group (31st March 2002: Nil).

4. Loss per share

The calculation of basic loss per share for the three months ended 31st March 2003 is based on the unaudited consolidated loss attributable to shareholders of HK\$2,360,000 (31st March 2002: HK\$5,783,000) and on the weighted average of 1,246,350,000 (31st March 2002: 1,250,000,000) ordinary shares in issue during the periods.

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.

5. Interim dividend

The Directors do not recommend the payment of interim dividend for the three months ended 31st March 2003 (31st March 2002: Nil).

6. Reserves

Movement of reserves of the Group are as follows:

	Share premium (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Warrants reserve (unaudited) HK\$'000	Reorganisation reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1st January 2002	88,627	—	—	3,000	(39,323)	52,304
Issue of warrants	—	—	6,250	—	—	6,250
Warrant issue expenses	(888)	—	—	—	—	(888)
Loss for the three months ended 31st March 2002	—	—	—	—	(5,783)	(5,783)
At 31st March 2002	<u>87,739</u>	<u>—</u>	<u>6,250</u>	<u>3,000</u>	<u>(45,106)</u>	<u>51,883</u>
At 1st January 2003	87,601	37	6,250	3,000	(71,505)	25,383
Loss for the three months ended 31st March 2003	—	—	—	—	(2,360)	(2,360)
At 31st March 2003	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(73,865)</u>	<u>23,023</u>

BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the three months ended 31st March 2003 amounted to HK\$1,536,000, representing a slight increase of 6.7% from the corresponding period of last year. OEM licensing revenue for the first quarter of 2003 amounted to HK\$392,000 representing about 25.5% of turnover (first quarter of 2002: nil). Loss attributable to shareholders for the three months ended 31st March 2003 amounted to HK\$2,360,000 compared to HK\$5,783,000 for the corresponding period of last year. The loss per share was HK\$0.19 cents (first quarter of 2002: loss per share of HK\$0.46 cents).

In 2003, the Group continues to focus 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 markets through the resources and network of its strategic partners, Shantou Idall Electronic Company Ltd in China, and Q9 Technology Corporation in Taiwan. During the three months ended 31st March 2003, the Group substantially reduced its operating expenses, whereby research and development expenses, advertising and promotion expenses, general and administrative expenses, and total operating expenses were reduced by 73.3%, 54.6%, 25% and 49.6% respectively compared to corresponding period in 2002. Total operating expenses for the first quarter of 2003 amounted to HK\$3,623,000 (first quarter of 2002: HK\$7,182,000).

The Group continues to focus its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes, and steady progress have been made. Q9 CIS was successfully integrated with two Nokia mobile phones which use Symbian OS, and were launched to the market in Hong Kong and Singapore. Symbian OS is an open mobile operating system in use by many other major mobile phone manufacturers, and two of such manufacturers who adopt Symbian OS are currently evaluating Q9 CIS for use in their mobile phones. The Group is currently negotiating several license agreements with OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes.

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

Appointing distributors for new markets

The Group decided to defer launching Q9 CIS in new markets 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 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). The Group is working closely with Idall to support its marketing programs for Q9 CIS packaged software, targeting educational institutions and the end users in the China market.

Continuing research and development into mobile information platform, Q9 CIS for non-Asian languages and an intelligent character output system

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 desk-top 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, Q9 CIS for non-Asian languages and development an intelligent character output system, until there is a specific request from the customer(s) as the next phase of development will be conducted in close cooperation with customers.

Securing further licensing agreements

The Group signed two licensing agreements during the first quarter of 2003 one with PRC based desk-top phone and another with a mobile phone OEM customer. The Group is currently negotiating several license agreements with OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes.

DIRECTORS' INTERESTS IN SHARES, WARRANTS AND SHARE OPTIONS

(i) SHARES

At 31st March 2003, the interests of the Directors and their associates in the shares of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange 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 (Note 1)	Exercised	Number of warrants as at 31st March 2003
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:

- The shares and warrants are held by Step Up Company Limited.
- 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.
- 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 March 2003, 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 March 2003 which have been granted under the Schemes are as follows:

Director	Number of share options outstanding at 31st March 2003	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

* 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 March 2003.

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%
up to 4th May 2011	

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%
up to 4th May 2011	

Save as disclosed above, during the three months ended 31st March 2003, none of the Directors or their associates was granted options to subscribe for shares of the Company.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March 2003, the Company has 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	Approximate percentage holding
Mega Fusion Limited	400,000,000	32.1%
Asia Orient Holdings (BVI) Limited (Note 1)	400,200,000	32.1%
Asia Orient Holdings Limited (Note 2)	400,200,000	32.1%
Mr. Poon Jing (Note 3)	400,200,000	32.1%
Step Up Company Limited	283,390,000	22.7%
Mr. Leung Lap Yan (Note 4)	283,390,000	22.7%
Culture.com Technology (BVI) Limited	300,000,000	24.1%
Culturecom Holdings (BVI) Limited (Note 5)	300,635,000	24.1%
Culturecom Holdings Limited (Note 6)	300,635,000	24.1%

Notes:

1. Asia Orient Holdings (BVI) Limited is deemed to be a substantial shareholder as Mega Fusion Limited is its wholly owned subsidiary.
2. Asia Orient Holdings Limited is deemed to be a substantial shareholder as Asia Orient Holdings (BVI) Limited is its wholly owned subsidiary.
3. Mr. Poon Jing is deemed to be a substantial shareholder as he has a controlling interest in Asia Orient Holdings Limited.
4. Mr. Leung Lap Yan is deemed to be a substantial shareholder as he has a controlling interest in Step Up Company Limited.
5. Culturecom Holdings (BVI) Limited is deemed to be a substantial shareholder as Culture.com Technology (BVI) Limited and Winway H.K. Investments Limited are its wholly owned subsidiaries.
6. Culturecom Holdings Limited is deemed to be a substantial shareholder as Culturecom Holdings (BVI) Limited is its wholly owned subsidiary.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the three months ended 31st March 2003, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Shares of the Company.

SPONSORS INTERESTS

As updated and notified by Company's sponsor, Anglo Chinese Corporate Finance, Limited (Anglo Chinese), 3,660,000 shares and 850,000 shares of the Company are held by a holding company and two directors of Anglo Chinese as at 31st March 2003. Saved as disclosed above, neither Anglo Chinese nor its directors or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the agreement dated 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.

AUDIT COMMITTEE

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

By order of the Board
Leung Lap Yan
Chairman

Hong Kong, 12th May 2003