



Q9 Technology Holdings Limited

(九方科技控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

annual report
2003



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 on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

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Management's Discussion and Analysis

HIGHLIGHTS OF THE YEAR

The Group recorded turnover of HK\$9,705,000 for the year ended 31st December 2003, representing an increase of 126% from the previous year.

The Group recorded HK\$5,554,000 of OEM licensing revenue for the year 2003, representing an increase of 650% over that of the previous year. OEM licensing revenue for the year 2003 represents about 57.2% of turnover for the year, as compared to 17.2% in the year of 2002. The increase was the result of the launch of mobile phones and desk-top phones embedded with Q9 CIS by a total of seven OEM customers and the receipt of porting fees by another six new OEM customers who signed OEM licensing agreements with the Group in 2003, compared with five OEM customers who contributed OEM licensing revenue to the Group in the year 2002. Q9 CIS and Qcode CIS package sales and software licensing revenue from Institution Customers for the year 2003 recorded an increase of 16.8% from the previous year. The Group launched Qcode CIS version 7 for traditional Chinese during the year 2003 at the request of the customers, including various Departments of the Government of the Hong Kong SAR.

The Group recorded a net loss attributable to shareholders for 2003 of HK\$4,807,000 (2002: HK\$32,145,000). The Group's decisive actions to minimize marketing, research & development and administrative expenses, and to focus its efforts and resources in the marketing of existing products to OEM customers, resulted in significant increase in sales revenue, sharp reduction in operating expenses, and endorsement of Q9 CIS by World Class companies, such as Nokia, Siemens, UTStarcom, Astralink Technology and others. The Group will continue to pursue this strategy in 2004.

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st December 2003 amounted to HK\$9,705,000, representing an increase of 126% from the previous year. Loss attributable to shareholders for the year 2003 of HK\$4,807,000 compared to HK\$32,145,000 in 2002. The loss per share was HK0.39 cents (2002: a loss per share of HK2.57 cents).

REVIEW OF OPERATIONS

During the year, the Group substantially reduced its investment in research and development, and advertising and promotion on Q9 CIS in the Greater China market, and maintained a small and effective team to promote Q9 CIS, with the focus on serving OEM customers in the Greater China market. The Group was able to significantly increase sales revenue and drastically reduce operating expenses as compared with the previous year.

The following represents significant events underlying the Group's performance during the financial year 2003:

- The Group reduced its shareholdings of Q9 Technology Corporation from 51% to 42.5% on 1st January 2003, as Q9 Technology Corporation issued new shares to a new shareholder who contributed capital in cash, as well as expertise in the OEM business.
- The Group reduced its total operating costs by HK\$23.3 million from previous year, which was mainly attributable to the Group's strategies to focus on marketing of existing products to OEM customers and to develop new products only with the orders of definitive customers, which minimized research and development expenses, and to leverage on the distribution network and resources of local strategic partners in China and Taiwan to penetrate the end user, which minimized marketing and promotion and general administrative expenses.
- 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\$28,839,000 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's OEM sales revenue in the Year 2003 increased by 6.5 times over that of the previous year. During the Year 2003, the Group and the Group's associated company in Taiwan signed OEM licensing agreements with thirteen OEM manufacturers, involved in manufacturing of desk-top phones, cellular phones, and electronic dictionaries. Since September 2003, a Q9 CIS embedded desk-top short message phones was launched in Hong Kong by a large fixed line operator with good market response, and more models are under development for market launch in 2004. After the year ended 31st December 2003, two additional OEM licensing agreements were secured by the Company, one signed with Siemens, and another signed with a PHS phone OEM manufacturer in China. At the request of an existing customer, the Group have developed a Thai version of Q9 CIS, which is under testing and ready for launch to the market during the second quarter of 2004.

Management's Discussion and Analysis

PROSPECTS

The focus of the Group's efforts for the year 2004 will continue to 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. The Group will continue to capitalize on its expanding customer base, including many World Class companies, and 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 continue to grow in 2004 as more products embedded with Q9 CIS are being rolled out by the OEM customers.

Commitments

The Group has no credit facilities and no borrowing outstanding as at 31st December 2003 (31st December 2002: nil).

(a) Capital commitment

The Group has no capital commitment as at 31st December 2003 (31st December 2002: nil).

(b) Commitments under operating leases

At 31st December 2003, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases were payable as follows :

	2003	2002
	HK\$'000	HK\$'000
Within one year	336	1,448
In the second to fifth year	604	528
	940	1,976

(c) Other commitment

As at 31st December 2003, the Group had no other commitment (31st December 2002: nil).

Liquidity and financial resources

The Group has no interest bearing debt and has no change in share capital. The Group relies on the internal resources, the net proceeds from its IPO and the subsequent issue of warrants as sources of funding. The Group keeps most of its cash in Hong Kong dollars as short term fixed deposit at banks, and balances 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 a bank account of its subsidiary in China in Renminbi and the balance in Hong Kong dollars.

There is no charge on the Group's assets as at 31st December 2003 (31st December 2002: nil).

The Group has no debt as at 31st December 2003 (31st December 2002: nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil as at 31st December 2003 (31st December 2002: nil).

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).

Investment

Since 31st December 2002, there is no other significant investment held by the Group.

Acquisition/disposal of a subsidiary

On 1st January 2003, the Group's then subsidiary in Taiwan, Q9 Technology Corporation, issued a total of 300,000 ordinary shares to third parties. As a consequence, the Group's equity interest in Q9 Technology Corporation was reduced from 51% to 42.5%. Since Q9 Technology Corporation was no longer controlled by the Group, it was reclassified from a subsidiary to an associate.

Save as disclosed, the Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31st December 2003.

Management's Discussion and Analysis

Human resources

Staff number

As at 31st December 2003, the Group employed 32 staffs (31st December 2002: 52 staffs). Total staff costs, including directors' emoluments were approximately HK\$7.5 million for the year ended 31st December 2003 as compared with that of approximately HK\$12.9 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.

Future plans for material investments and capital assets

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

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.

Contingent liabilities

The Group does not have any contingent liabilities as at 31st December 2003 (31st December 2002: nil).

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.

Segmental information

Taiwan's segment information was nil in 2003 as a result of reclassifying Q9 Technology Corporation from a subsidiary to an associate.

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. Wan Xiaolin
Mr. Kwan Kin Chung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

COMPLIANCE OFFICER

Mr. Tam Kam Biu William

AUDIT COMMITTEE

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

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

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark,
11 Pedder Street, Central
Hong Kong

REGISTERED OFFICE

PO Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22nd Floor, Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
 Rooms 1901-5, 19th Floor
 Hopewell Centre
 183 Queen's Road East
 Hong Kong

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

DBS Bank Ltd, Hong Kong Branch
 16/F Man Yee Building
 68 Des Voeux Road Central
 Hong Kong

STOCK CODE

Share 8129

WEBSITE ADDRESS

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

Corporate Profile

The Year 2003 was an important one for the Group. The Group's decision in early 2003 to focus on marketing of existing products to OEM customers, to develop new products only with the orders of definitive customers, and to leverage on the distribution network and resources of local strategic partners in China and Taiwan to penetrate the end user, proved to be an effective strategy which the Group regards as its long term strategy.

The main thrust of the Group's core 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 significant growth in sales revenue for both OEM sales and packaged software sales in the Year 2003 as compared with the previous year showed that Q9 CIS have gained increasing market acceptance in both the end user and the OEM markets. In the Year 2003, the Group's OEM sales revenue increased by 6.5 times over that of the previous year, while packaged software sales to the end users increased by 16.8% over that of the previous year. The Group believes there is substantial room to grow the OEM business with the continue support of Q9 CIS by World Class cellular phone, desk-top phone and electronic dictionary OEM manufacturers, not only for its Chinese and English versions, but also a new Thai version, which has been developed upon request of two of the Group's OEM customers.

The Group is reviewing the agency arrangements with Idall in China and Q9 Technology Corporation in Taiwan, who are responsible for promoting Q9 CIS to the end user market during the Year 2003; new and alternatives arrangements are being considered, with the objective to improve the penetration of the end user market.

Management of the Group will continue to continue its business focus and marketing thrust in the most cost effective manner in the promising OEM market, and strive to achieve profitability and create positive values for the shareholders within the shortest time frame.

Chairman's Statement

Dear Shareholders,

During the past year, the Group substantially curtailed investment in research and development, advertising and promotion, and general administrative expenses, but at the same time, witnessed significant growth in sales revenue for both the OEM and end user markets. Thanks to the efforts of our smaller but more effective team, who contributed to the significant improvement in the operating results of the Group in 2003.

Management believes the Group has substantial room to grow its business, both in the OEM and end user market for Q9 CIS, and we 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 frame.

Leung Lap Yan

Chairman

Hong Kong, 17th March 2004

Comparison of Business Objectives and Actual Business Progress

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 2003 as disclosed in the Prospectus of the Group by major items:

Use of proceed by item	As disclosed in Prospectus	Actual in 2003
(1) Advertising and Promotion	HK\$5,921,000	HK\$407,300
(2) Establishment costs	—	—
(3) Research & Development	HK\$5,153,000	—
Total :	<u>HK\$11,074,000</u>	<u>HK\$407,300</u>

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 currently reviewing its agency arrangement with Idall and Taiwan Q9 Technology Corporation, with the objective to improve market penetration to the end user market.

Comparison of Business Objectives and Actual Business Progress

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. At the request of two existing OEM customers, the Group developed Q9 CIS Thai version, which is currently under testing with the customers, and ready for launch to the market during the second quarter of 2004.

Securing further licensing agreements

The Group and the Group's associated company in Taiwan signed thirteen licensing agreements during the year 2003, with two additional OEM licensing agreements signed in 2004 up to the date of this Annual Report. The SMS desk-top phones marketed by PCCW since July 2003, were supplied by the Group's OEM customer, which contributed to OEM license revenue for the Group in the second half of 2003.

The Group is currently negotiating several license agreements with OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 55, 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 59, 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 47, 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 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 53, 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.

Biographical Details of Directors

Mr. Lau Man Kin, aged 34, 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 40, 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 55, 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 45, 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. Wan Xiaolin, aged 46, is executive director of Culturecom Holdings Limited and is responsible for its administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. He joined the Group in September 2003.

Mr. Kwan Kin Chung, aged 34, 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, the PRC. He joined the Group in February 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 36, graduated from the University of Hong Kong with a bachelor's degree in law. He is a solicitor admitted in Hong Kong and has over ten 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 38, 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.

Directors' Report

For the year ended 31st December 2003

The Directors present their report and the audited financial statements for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 10 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2003 and the state of its affairs of the Group and the Company at that date are set out in the financial statements on pages 29 to 59.

The Directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 17 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 9 to the financial statements.

SHARE CAPITAL

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

FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group for the last four years is set out on page 60.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2003, determined in accordance with Section 34 of the Companies Law (2001 Revision) of the Cayman Islands, amounted to approximately HK\$14,326,000 (2002 : HK\$19,133,000). 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.

Directors' Report

For the year ended 31st December 2003

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands or the Company's Articles of Association in respect of the Company's share capital.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS

The Directors of the Company 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

(resigned on 16th September 2003)

Mr. Wan Xiaolin

(appointed on 16th September 2003)

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 the present 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 13 to 14.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Leung Lap Yan, Leung Lap Fu Warren and Lau Man Kin has entered into a service contract with the Group. The service contracts are for a term of three years from 1st May 2001. Mr. Tam Kam Biu William and Dr. Lim Yin Cheng has entered into a letter of employment and letter of appointment respectively with the Group whereby Mr. Tam Kam Biu William was employed as the Chief Financial Officer and Dr. Lim Yin Cheng was appointed as the Chief Executive Officer of the Group.

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

Details of Mr. Leung Lap Yan's interest in a contract entered into by the Group are set out in note 20(iv) to the financial statements.

Save as disclosed above, no other 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 as defined 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"):

	Notes	2003 HK\$'000	2002 HK\$'000
Office and warehouse rental expenses	(i)	637	1,142
Office rental income	(i)	352	160
Building management fees	(ii)	255	255
License fee income	(iii)	672	—
Consultancy fees	(iv)	210	—
		637	1,557

Directors' Report

For the year ended 31st December 2003

Notes:

- (i) Office and warehouse rental agreements were entered into with certain subsidiaries of two substantial shareholders of the Company with rental charged at fixed monthly fees.
- (ii) Building management fees were paid to the subsidiary of a substantial shareholder of the Company and were charged at a fixed monthly rate.
- (iii) License fee income was received from the associate of the Group which was charged at a fixed annual fee of HK\$672,000.
- (iv) Consultancy fee was paid to a related company for providing marketing and public relations services to the Group at a fixed monthly fee of HK\$70,000. The company is owned by Mr. Leung Lap Yan, a Director and a substantial shareholder of the Company.

The non-executive directors have reviewed the continuing connected transactions set out in (i) to (iv) 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 financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2003, the interests and short positions of each of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")) which (i) are required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules, were as follows :

(i) LONG POSITIONS IN SHARES OF THE COMPANY

Director	Number of shares held				Total	Approximate percentage of holding
	Personal interests	Family interests	Corporate interests (Note 1)	Other interests		
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

Note :

1. The shares are held by Step Up Company Limited. Mr. Leung Lap Yan has a controlling interest (41.25%) in Step Up Company Limited and is deemed to have interest in all the shares held by Step Up Company Limited.

(ii) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY**(a) Pre-IPO Share Option Scheme and the First Post-IPO Share Option Scheme**

The Company adopted the Pre-IPO Share Option Scheme on 5th May 2001 which was terminated on 7th May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30th April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 31st December 2003.

As at 31st December 2003, information on share options which had been granted to Directors under the Old Share Option Schemes and which remained outstanding was as follows:

Director	Number of share options outstanding as at 31st December 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. 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 to each grantee in consideration of HK\$1.00. No options granted pursuant to the Old Share Option Schemes had been exercised as at 31st December 2003.

No option has granted to a director which has lapsed during the year.

Directors' Report

For the year ended 31st December 2003

The options may be exercised at any time within the option period provided that the options have been vested. The vesting dates of the options and the percentage of options vested or vesting on such dates are set out below.

Date of vesting of the options (that is, the date when the options become/became exercisable)	Percentage of options vested/vesting on such dates	
	Note 1	Note 2
(a) 18th November 2001	10%	10%
(b) 18th May 2002	10%	20%
(c) 18th November 2002	10%	20%
(d) 18th May 2003	20%	20%
(e) 18th November 2003	20%	20%
(f) 18th May 2004	20%	10%
(g) 18th November 2004	10%	—

(b) New Share Option Scheme

Details of the New Share Option Scheme are set out in the sub-section headed "New Share Option Scheme" under the section headed "Share Option Schemes" below.

No option had been granted to the Directors or the chief executives under the New Share Option Scheme for the year ended 31st December 2003.

Save as disclosed above, as at 31st December 2003, none of the Directors or the chief executives of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules. During the year, no debt securities had been issued by the Group.

SHARE OPTION SCHEMES

(a) Old Share Option Schemes

As at 1st January 2003, options to subscribe for up to an aggregate of 223,120,000 shares of HK\$0.01 each at a subscription price ranging between HK\$0.142 and HK\$0.45 per share were granted to certain directors, employees and advisors under the Old Share Option Schemes. Details of the options are set out as follows:

Grantee	Date of grant**	Exercise price	Outstanding	Exercise period*	Lapsed***	Outstanding
			as at 1st January 2003			as at 31st December 2003
Directors	5/5/2001	HK\$0.36	169,590,000	See note 1 below	—	169,590,000
Directors	5/5/2001	HK\$0.36	26,500,000	See note 2 below	—	26,500,000
Directors	18/5/2001	HK\$0.45	4,000,000	18/5/01 to 17/5/11	—	4,000,000
Director (resigned)	5/5/2001	HK\$0.36	640,000	See note 2 below	640,000	—
Employees	5/5/2001	HK\$0.36	9,010,000	See note 2 below	2,100,000	6,910,000
Employee	18/5/2001	HK\$0.45	720,000	18/5/01 to 17/5/11	—	720,000
Employee	11/10/2001	HK\$0.142	100,000	11/10/01 to 10/10/11	—	100,000
Advisors	5/5/2001	HK\$0.36	12,560,000	See note 2 below	—	12,560,000
			223,120,000		2,740,000	220,380,000

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

** Options were granted to each grantee in consideration of HK\$1.00. No options granted pursuant to the Old Share Option Schemes had been exercised as at 31st December 2003.

*** Options were lapsed after the grantees ceased employment with the Company.

Directors' Report

For the year ended 31st December 2003

The options may be exercised at any time within the option period provided that the options have been vested. The vesting dates of the options and the percentage of options vested or vesting on such dates are set out below.

Date of vesting of the options (that is, the date when the options become/became exercisable)	Percentage of options vested/vesting on such dates	
	Note 1	Note 2
(a) 18th November 2001	10%	10%
(b) 18th May 2002	10%	20%
(c) 18th November 2002	10%	20%
(d) 18th May 2003	20%	20%
(e) 18th November 2003	20%	20%
(f) 18th May 2004	20%	10%
(g) 18th November 2004	10%	—

Details of options granted to Directors under the Old Share Option Schemes are set out in the sub-section headed "Long Position in Underlying Shares of the Company" under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

(b) New Share Option Scheme

The first Post-IPO Share Option Scheme has been terminated at the 2002 annual general meeting 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 utilize 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 of 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 10.03% 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.

Directors' Report

For the year ended 31st December 2003

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, 10,000,000 options had been granted under the New Share Option Scheme by the Company.

Grantee	Date of grant	Exercise price	Outstanding	Granted	Exercise period	Outstanding
			as at 1st January 2003			as at 31st December 2003
Advisors	10/7/2003	HK\$0.042	—	10,000,000	10/7/2003 to 9/7/2013	10,000,000

The closing price of the shares immediately before the date of grant of the option was HK\$0.035.

VALUATION OF SHARE OPTIONS

The options granted are not recognized in the financial statements until they are exercised. The Directors consider that it is not appropriate to state the value of the share options granted during the year on the ground that a number of variables which are crucial to the valuation of the option value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December 2003, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the directors and chief executives) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group :

Long positions in shares of the Company

Name of shareholder	Number of shares	Approximate percentage holding
Mega Fusion Limited	400,000,000	32.09%
Asia Orient Holdings Limited (Note (i))	400,200,000	32.10%
Mr. Poon Jing (Note (ii))	400,200,000	32.10%
Step Up Company Limited	283,390,000	22.73%
Mr. Leung Lap Yan (Note (iii))	283,390,000	22.73%
Winway H.K. Investments Limited	300,635,000	24.12%
Culturecom Holdings Limited (Note (iv))	300,635,000	24.12%

Notes:

- (i) Asia Orient Holdings Limited is deemed to be interested in 400,200,000 shares through its controlling interest (100%) in Mega Fusion Limited and in Asia Orient Company Limited.
- (ii) Mr. Poon Jing is deemed to be interested in 400,200,000 shares through his controlling interest (47.47%) in Asia Orient Holdings Limited.
- (iii) Mr. Leung Lap Yan is deemed to be interested in 283,390,000 shares through his controlling interest (41.25%) in Step Up Company Limited.
- (iv) Culturecom Holdings Limited is deemed to be interested in 300,635,000 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

Save as disclosed above, as at 31st December 2003, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Directors' Report

For the year ended 31st December 2003

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	29.8%
— five largest suppliers combined	79.5%

Sales

— the largest customer	29.2%
— five largest customers combined	50.7%

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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 2003. 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, as at 31st December 2003.

Pursuant to an agreement date 18th May 2001 entered into between the Company and Anglo Chinese, Anglo Chinese has received 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 the minimum standards of good practice concerning the general management responsibilities of the board 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.

AUDITORS

PricewaterhouseCoopers resigned as auditors of the Company and Grant Thornton was appointed to fill the casual vacancy on 28th July 2003.

Grant Thornton retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Leung Lap Yan

Chairman

Hong Kong, 17th March 2004

Auditors' Report

TO THE MEMBERS OF Q9 TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 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 for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton

Certified Public Accountants

Hong Kong, 17th March 2004

Consolidated Income Statement

For the year ended 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	3	9,705	4,293
Cost of sales		(899)	(687)
Gross profit		8,806	3,606
Other revenues	3	255	628
Selling and distribution expenses		(3,789)	(11,237)
Research and development expenses		(1,965)	(11,512)
General and administrative expenses		(7,916)	(14,228)
Loss from operations	4	(4,609)	(32,743)
Share of losses of an associate		(454)	—
Gain on deemed disposal of a subsidiary	18(a)	256	—
Loss before minority interests		(4,807)	(32,743)
Minority interests		—	598
Loss attributable to shareholders	6	(4,807)	(32,145)
		HK Cents	HK Cents
Loss per share - Basic	7	(0.39)	(2.57)

Consolidated Balance Sheet

As at 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	1,615	3,023
Interest in an associate	11	—	—
		1,615	3,023
Current assets			
Inventories	13	485	1,198
Trade receivables	14	1,453	844
Other receivables, prepayments and deposits		800	1,003
Amount due from a related company	12	81	—
Amount due from an associate	12	735	—
Cash at banks and in hand		28,839	33,670
		32,393	36,715
Current liabilities			
Trade payables	15	143	263
Other payables and accruals		825	1,438
		968	1,701
Net current assets		31,425	35,014
Minority interests		—	190
Net assets		33,040	37,847
CAPITAL AND RESERVES			
Share capital	16	12,464	12,464
Reserves	17	20,576	25,383
Shareholders' funds		33,040	37,847

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Balance Sheet

As at 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	10	7,501	7,501
Current assets			
Other receivables		1	—
Amounts due from subsidiaries	12	29,084	30,031
Cash at banks		144	641
		<u>29,229</u>	<u>30,672</u>
Current liabilities			
Other payables and accruals		315	326
		<u>28,914</u>	<u>30,346</u>
Net current assets		<u>28,914</u>	<u>30,346</u>
Net assets		<u><u>36,415</u></u>	<u><u>37,847</u></u>
CAPITAL AND RESERVES			
Share capital	16	12,464	12,464
Reserves	17	23,951	25,383
		<u>36,415</u>	<u>37,847</u>
Shareholders' funds		<u><u>36,415</u></u>	<u><u>37,847</u></u>

Annual Report 2003

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Total equity at 1st January		37,847	64,804
Issue of warrants	17	—	6,250
Repurchase of shares	16(a), 17	—	(174)
Warrant issue expenses	17	—	(888)
Loss attributable to shareholders	17	(4,807)	(32,145)
Total equity at 31st December		33,040	37,847

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Cash flows from operating activities			
Loss before minority interests		(4,807)	(32,743)
Adjustments for :			
Interest income		(254)	(628)
Depreciation		911	1,130
Share of losses of associate		454	—
Gain on deemed disposal of a subsidiary		(256)	—
Provision for obsolete inventories		363	92
Amortisation of deferred expenditure and goodwill		—	6,566
Impairment of deferred expenditure and goodwill		—	7,187
Loss on disposal of property, plant and equipment		179	141
Operating loss before working capital changes		(3,410)	(18,255)
Decrease/(increase) in inventories		249	(187)
(Increase)/decrease in trade and other receivables		(498)	1,433
Increase in amount due from a related company		(81)	—
Increase in amount due from an associate		(735)	—
Decrease in trade and other payables		(576)	(511)
Net cash used in operating activities		(5,051)	(17,520)
Cash flows from investing activities			
Purchase of property, plant and equipment		(56)	(1,044)
Proceeds from disposal of property, plant and equipment		103	10
Interest received		254	628
Cash outflow from deemed disposal of a subsidiary	18(a)	(81)	—
Purchase of a subsidiary, net of cash acquired	18(b)	—	(451)
Net cash generated from/(used in) investing activities		220	(857)
Cash flows from financing activities			
Proceeds from issue of warrants		—	6,250
Warrant issue expenses		—	(888)
Repurchase of shares		—	(174)
Net cash generated from financing activities		—	5,188
Decrease in cash		(4,831)	(13,189)
Cash at 1st January		33,670	46,859
Cash at 31st December		28,839	33,670

Notes to the Financial Statements

For the year ended 31st December 2003

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in computer software and embedded systems development, and trading and licensing of the software and systems. Details of the principal activities of the Company's subsidiaries are set out in note 10.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 29 to 59 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention.

Adoption of revised SSAP

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the results for the current and prior years. Accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

The financial statements also include the Group's share of post-acquisition results and reserves of its associate.

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and any related accumulated foreign currency translation reserve.

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

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(d) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill is recognised in the consolidated balance sheet as an asset and amortised on a straight-line basis over its estimate useful life.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at its share of net assets. The Company's investments in associates are stated at cost less impairment losses.

An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

(f) 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 periods of the service contracts.

(g) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation or amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum :

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

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated at net of such provision.

(i) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost computed using the first-in, first-out basis, comprises direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(j) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. 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.

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes, are recognised as intangible assets if the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development. The development costs capitalised include the cost of materials, direct labour and an appropriate proportion of overheads. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

(m) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Impairment *(Continued)*

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in translation reserve.

(o) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(p) 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.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefits

The Group contributes to a Mandatory Provident Fund Scheme where the Group and employees are required to contribute 5% of the employees' relevant income each month, subject to the statutory maximum of HK\$1,000 per person. Such contributions are charged to the consolidated income statement as incurred.

The assets of the scheme are held separately from those of the Group in an independent administered fund.

(q) Revenue recognition

Revenue from the sale of goods is recognised when the goods are delivered to the customers.

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

Interest income is accrued on a time basis.

Notes to the Financial Statements

For the year ended 31st December 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(r) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sale of goods	4,151	3,553
Licensing	5,554	740
	<u>9,705</u>	<u>4,293</u>
Other revenues		
Interest income	254	628
Sundry income	1	—
	<u>255</u>	<u>628</u>
Total revenues	<u><u>9,960</u></u>	<u><u>4,921</u></u>

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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.

Notes to the Financial Statements

For the year ended 31st December 2003

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Geographical segment analysis is as follows :

	Hong Kong HK\$'000	The People's Republic of China ("PRC") HK\$'000	Taiwan HK\$'000	Total HK\$'000
2003				
Segment revenue :				
Sales to external customers	8,018	1,687	—	9,705
Segment results	(5,213)	604	—	(4,609)
Share of losses of an associate				(454)
Gain on deemed disposal of a subsidiary				256
Loss before minority interests				(4,807)
Minority interests				—
Loss attributable to shareholders				(4,807)
Segment assets	30,810	3,198	—	34,008
Capital expenditure	18	38	—	56

Notes to the Financial Statements

For the year ended 31st December 2003

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Total <i>HK\$'000</i>
2002				
Segment revenue :				
Sales to external customers	3,274	953	66	4,293
Segment results	<u>(29,963)</u>	<u>(1,559)</u>	<u>(1,221)</u>	<u>(32,743)</u>
Minority interests				598
Loss attributable to shareholders				<u>(32,145)</u>
Segment assets	<u>36,652</u>	<u>2,541</u>	<u>545</u>	<u>39,738</u>
Capital expenditure	<u>473</u>	<u>499</u>	<u>72</u>	<u>1,044</u>

Sales are based on the countries in which the Group's service facilities are located and segment assets and capital expenditure are based on where the assets are located.

Notes to the Financial Statements

For the year ended 31st December 2003

4. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations is arrived at after charging :		
Auditors' remuneration		
Current year	240	281
Overprovision in prior year	(28)	—
Amortisation		
Goodwill	—	122
Deferred expenditure	—	6,444
Impairment		
Goodwill	—	791
Deferred expenditure	—	6,396
Depreciation	911	1,130
Loss on disposal of property, plant and equipment	179	141
Operating lease rentals in respect of land and buildings	1,163	2,416
Provision for obsolete inventories	363	92
Staff costs (including Directors' remuneration (note 8(a)) and contributions to retirement benefits scheme (note 21))	7,458	12,891
	<u>7,458</u>	<u>12,891</u>

Notes to the Financial Statements

For the year ended 31st December 2003

5. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not derive any assessable profit for the year (2002 : Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates :

	2003 HK\$'000	2002 HK\$'000
Loss before minority interests	<u>(4,807)</u>	<u>(32,743)</u>
Tax at applicable rate of 17.5% (2002 : 16%)	(841)	(5,239)
Effect of different income tax rates	(14)	(94)
Tax effect of non-deductible expenses	92	2,241
Tax effect of non-taxable revenues	(87)	(98)
Tax losses not recognised as deferred tax asset	843	3,108
Other temporary differences not recognised	97	82
Utilisation of tax losses previously not recognised	<u>(90)</u>	<u>—</u>
Actual tax expense	<u>—</u>	<u>—</u>

At 31st December 2003, the Group has net deferred tax assets mainly arising from tax losses of approximately HK\$58,000,000 (2002 : HK\$53,000,000). However, the net deferred tax assets are not recognised as it is uncertain whether future taxable profit will be available for utilising the accumulated tax losses. Under the current tax legislation, the tax losses can be carried forward indefinitely.

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$1,432,000 (2002 : HK\$69,999,000).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$4,807,000 (2002 : HK\$32,145,000) and on the weighted average of 1,246,350,000 shares (2002 : 1,248,827,000 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.

Notes to the Financial Statements

For the year ended 31st December 2003

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' fees and emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the provision of the Listing Rules are as follows :

	2003 HK\$'000	2002 HK\$'000
Fees	20	—
Other emoluments :		
Basic salaries, allowances and other benefits-in-kind	3,362	4,016
Discretionary bonuses	—	1,119
Contributions to retirement benefits scheme	60	60
	<u>3,442</u>	<u>5,195</u>

An independent non-executive director received directors' fees of HK\$20,000 (2002 : Nil) during the year.

Five executive directors received individual remuneration for the year ended 31st December 2003 of approximately HK\$942,000 (2002 : HK\$1,492,000), HK\$936,000 (2002 : HK\$1,425,000), HK\$716,000 (2002 : HK\$1,250,000), HK\$493,000 (2002 : HK\$544,000), and HK\$335,000 (2002 : HK\$484,000) respectively.

None of the remaining Directors received or will receive any fees or emoluments in respect of their services to the Company for the year (2002 : 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.

(b) Five highest paid individuals

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

Notes to the Financial Statements

For the year ended 31st December 2003

9. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st January 2003	1,834	4,015	420	6,269
Additions	—	56	—	56
Disposals	—	(53)	(420)	(473)
Disposal of a subsidiary	—	(347)	—	(347)
At 31st December 2003	1,834	3,671	—	5,505
Accumulated depreciation				
At 1st January 2003	929	2,175	142	3,246
Charge for the year	275	626	10	911
Disposals	—	(39)	(152)	(191)
Disposal of a subsidiary	—	(76)	—	(76)
At 31st December 2003	1,204	2,686	—	3,890
Net book value				
At 31st December 2003	630	985	—	1,615
At 31st December 2002	905	1,840	278	3,023

Notes to the Financial Statements

For the year ended 31st December 2003

10. INTEREST IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	<u>7,501</u>	<u>7,501</u>

Particulars of the Group's subsidiaries at 31st December 2003 are as follows :

Name	Place/ Country of incorporation	Nominal value of issued/ paid-up capital	Percentage of issued/ paid-up capital held	Principal activities and place of operation
Directly held :				
Q9 Technology (BVI) Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
Indirectly held :				
Qcode Information Technology Limited	Hong Kong	500,000 ordinary shares of HK\$1 each	100%	Computer software development and retailing in Hong Kong
Qcode Chinese Computer Limited	Hong Kong	600,000 ordinary shares of HK\$1 each	100%	Holding of patents in Hong Kong
Qcode Technology Services Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding in Hong Kong
Q9 Technology (Shenzhen) Limited	Peoples' Republic of China ("PRC")	HK\$2,000,000	100%	Computer software development and retailing in the PRC

Notes to the Financial Statements

For the year ended 31st December 2003

11. INTEREST IN AN ASSOCIATE

	2003	Group
	HK\$	2002
		HK\$
Share of net assets	—	—
	<u> </u>	<u> </u>

On 1st January 2003, the Group's then subsidiary in Taiwan, Q9 Technology Corporation ("Q9 Taiwan"), issued a total of 300,000 ordinary shares to third parties. As a result, the Group's equity interest in Q9 Taiwan was reduced from 51% to 42.5%. Q9 Taiwan was no longer controlled by the Group and was reclassified from a subsidiary to an associate. During the year, Q9 Taiwan incurred significant losses and the Group has taken up its share of the losses up to the carrying value of its investment in Q9 Taiwan as the Group has no obligation to share further losses of the associate exceeding the carrying amount of its investment in the associate. Accordingly, the Group's investment in Q9 Taiwan is stated at nil value at 31st December 2003.

Particulars of the associate at 31st December 2003 were as follows :

Name	Place/ Country of incorporation	Nominal value of issued capital	Percentage of issued capital held	Principal activities and place of operation
Q9 Technology Corporation	Taiwan	1,800,000 ordinary shares of NT\$10 each	42.5%	Computer software development and retailing in Taiwan

12. AMOUNTS DUE FROM SUBSIDIARIES/ A RELATED COMPANY/ AN ASSOCIATE

The amounts due are unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

For the year ended 31st December 2003

13. INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandise	400	556
Finished goods	448	734
	<u>848</u>	<u>1,290</u>
Less : Provision for obsolete inventories	(363)	(92)
	<u>485</u>	<u>1,198</u>

Included in the net balance were inventories with a total cost of HK\$363,000 (2002 : HK\$92,000) which were fully provided at 31st December 2003.

14. TRADE RECEIVABLES

At 31st December 2003, the ageing analysis of the trade receivables net of allowances was net of allowance as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	816	719
31 - 90 days	415	99
91 - 180 days	222	26
	<u>1,453</u>	<u>844</u>

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

Notes to the Financial Statements

For the year ended 31st December 2003

15. TRADE PAYABLES

At 31st December 2003, the ageing analysis of the trade payables was as follows :

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	102	180
31 - 90 days	37	32
91- 180 days	3	8
Over 180 days	1	43
	<u>143</u>	<u>263</u>

16. SHARE CAPITAL

	Notes	Authorised	
		Number of shares	Par value of HK\$0.01 each HK\$
At 31st December 2002 and at 31st December 2003		<u>50,000,000,000</u>	<u>500,000,000</u>
		Issued and fully paid	
		Number of shares	Par value of HK\$0.01 each HK\$
At 1st January 2002		1,250,000,000	12,500,000
Repurchase of shares	(a)	<u>(3,650,000)</u>	<u>(36,500)</u>
At 31st December 2002 and at 31st December 2003		<u>1,246,350,000</u>	<u>12,463,500</u>

Notes to the Financial Statements

For the year ended 31st December 2003

16. SHARE CAPITAL (Continued)

The following alternations in the Company's authorised and issued share capital took place during the years ended 31st December 2002 and 31st December 2003 :

- (a) In 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.
- (b) 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 expired on 7th August 2003. If the warrants are fully exercised, the Company would be required to issue a further 250,000,000 ordinary shares. During the year and up to the expiry date, no warrants were exercised.
- (c) Pursuant to the Pre-IPO Share Option Scheme adopted on 5th May 2001 and the Share Option Scheme adopted on 7th May 2001 (collectively the "Old Share Option Schemes"), share options to subscribe for shares of the Company were granted to certain directors, employees and advisors.

In 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 under the Old Share Option Schemes. None of these options were exercised in 2002 and 2003. However, 15,110,000 and 2,740,000 options granted to Directors and employees lapsed in 2002 and 2003 respectively.

Notes to the Financial Statements

For the year ended 31st December 2003

16. SHARE CAPITAL (Continued)

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

Grantee	Date of grant	Exercise price	Outstanding as at 1st January 2003	Exercised	Lapsed	Outstanding as at 31st December 2003
Directors :						
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 (resigned)	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	9,010,000	—	2,100,000	6,910,000
Employee	18/5/2001	HK\$0.45	720,000	—	—	720,000
Employee	11/10/2001	HK\$0.142	100,000	—	—	100,000
Advisors	5/5/2001	HK\$0.36	12,560,000	—	—	12,560,000
			223,120,000	—	2,740,000	220,380,000

The Company adopted the New Share Option Scheme in its 2002 annual general meeting on 30th April 2002. In 2003, 10,000,000 options were granted to certain advisors under the New Share Option Scheme.

Grantee	Date of grant	Exercise price	Outstanding as at 1st January 2003	Granted	Exercised	Lapsed	Outstanding as at 31st December 2003
Advisors	10/7/2003	HK\$0.042	—	10,000,000	—	—	10,000,000

The closing price of the shares immediately before the date of grant of the option was HK\$0.035.

Notes to the Financial Statements

For the year ended 31st December 2003

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
Balance at 1st January 2002	88,627	—	—	3,000	(39,323)	52,304
Issue of warrants (Note 16(b))	—	—	6,250	—	—	6,250
Warrant issue expenses	(888)	—	—	—	—	(888)
Repurchase of shares (Note 16(a))						
- Premium paid on repurchase	(138)	—	—	—	—	(138)
- Transfer between reserves	—	37	—	—	(37)	—
Loss for the year	—	—	—	—	(32,145)	(32,145)
Balance at 31st December 2002 and 1st January 2003	87,601	37	6,250	3,000	(71,505)	25,383
Loss for the year	—	—	—	—	(4,807)	(4,807)
Balance at 31st December 2003	87,601	37	6,250	3,000	(76,312)	20,576

Notes to the Financial Statements

For the year ended 31st December 2003

17. RESERVES (Continued)

Company

	Share premium HK\$'000	Warrants reserve HK\$'000	Reorganisation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st January 2002	88,627	—	2,501	(970)	90,158
Issue of warrants (Note 16(b))	—	6,250	—	—	6,250
Warrant issue expenses	(888)	—	—	—	(888)
Repurchase of shares (Note 16(a))	(138)	—	—	—	(138)
Loss for the year	—	—	—	(69,999)	(69,999)
Balance at 31st December 2002 and at 1st January 2003	87,601	6,250	2,501	(70,969)	25,383
Loss for the year	—	—	—	(1,432)	(1,432)
Balance at 31st December 2003	87,601	6,250	2,501	(72,401)	23,951

Note :

The reorganisation reserve of the Group and the Company 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.

Notes to the Financial Statements

For the year ended 31st December 2003

18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Deemed disposal of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of		
Property, plant and equipment	271	—
Inventories	101	—
Trade receivables	27	—
Other receivables	65	—
Cash at banks	81	—
Trade payables	(72)	—
Other payables	(85)	—
Minority interests	(190)	—
	<u>198</u>	<u>—</u>
Gain on deemed disposal of a subsidiary	256	—
	<u>454</u>	<u>—</u>
Satisfied by		
Share of net assets of an associate	454	—
	<u>454</u>	<u>—</u>
Analysis of the net cash outflow in respect of the deemed disposal of a subsidiary :		
Cash at banks disposed of	(81)	—
	<u>(81)</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31st December 2003

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

(b) Purchase of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Property, plant and equipment	—	307
Inventories	—	56
Deposits and prepayments	—	54
Cash at banks and in hand	—	1,282
Other payables and accruals	—	(91)
Minority interests	—	(788)
	<hr/>	<hr/>
	—	820
Goodwill	—	913
	<hr/>	<hr/>
	—	1,733
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by		
Cash	—	1,733
	<hr/> <hr/>	<hr/> <hr/>

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	—	1,733
Cash at banks and in hand acquired	—	(1,282)
	<hr/>	<hr/>
Net cash outflow in respect of the purchase of a subsidiary	—	451
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December 2003

19. OPERATING LEASE COMMITMENTS

At 31st December 2003, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases were payable as follows :

	2003	2002
	HK\$'000	HK\$'000
Within one year	336	1,448
In the second to fifth year	604	528
	940	1,976

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	2003	2002
		HK\$'000	HK\$'000
Office and warehouse rental expenses	(i)	637	1,142
Office rental income	(i)	352	160
Building management fees	(ii)	255	255
License fee income	(iii)	672	—
Consultancy fees	(iv)	210	—

Notes :

- (i) Office and warehouse rental agreements were entered into with certain subsidiaries of two substantial shareholders of the Company with rental charged at fixed monthly fees.
- (ii) Building management fees were paid to the subsidiary of a substantial shareholder of the Company and were charged at a fixed monthly rate.
- (iii) License fee income was received from the associate of the Group which was charged at a fixed annual fee of HK\$672,000.
- (iv) Consultancy fee was paid to a related company for providing marketing and public relations services to the Group at a fixed monthly fee of HK\$70,000. The company is owned by Mr. Leung Lap Yan, a Director and a substantial shareholder of the Company.

Notes to the Financial Statements

For the year ended 31st December 2003

21. 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 consolidated income statement during the year amounted to HK\$191,000 (2002 : HK\$273,000).

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 29 to 59 were approved by the board of directors on 17th March 2004.

Financial Summary

	Year ended 31st December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Results					
Loss attributable to shareholders	<u>(4,807)</u>	<u>(32,145)</u>	<u>(19,549)</u>	<u>(19,034)</u>	<u>(1,015)</u>
Assets and liabilities					
Fixed assets	<u>1,615</u>	<u>3,023</u>	<u>2,953</u>	<u>2,860</u>	
Other assets	<u>32,393</u>	<u>36,715</u>	<u>63,972</u>	<u>7,641</u>	
Liabilities and minority interests	<u>(968)</u>	<u>(1,891)</u>	<u>(2,121)</u>	<u>(22,275)</u>	
	<u>33,040</u>	<u>37,847</u>	<u>64,804</u>	<u>(11,774)</u>	

Note :

The financial summary of the Group for the years 1999 to 2003 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 of Annual General Meeting

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 28th April 2004, Wednesday 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 2003;
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;

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 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;

Notice of Annual General Meeting

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 of the Company listed on the Stock Exchange or on any other stock exchange on which the Company’s shares 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 of the Company to be repurchased by the Company pursuant to paragraph (a) of this resolution during the relevant period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(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; or
- (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; or
- (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.”

7. As special business to consider and, if thought fit, pass the following Resolution (with or without amendments) as a Special Resolution:

“**THAT** the Articles of Association of the Company be and are hereby amended in accordance with the following:

(A) Article 2, definition of “recognised clearing house”

by deleting the words “Securities and Futures (Clearing Houses) Ordinance of Hong Kong” in the 2nd and 3rd line and replacing them with “Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)”;

(B) Article 96A

by adding the following Article 96A immediately after Article 96:

<p>“Restrictions on voting under Listing Rules App 3 r 14</p>	<p>96A</p>	<p>Where any member, under the Listing Rules, is required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”;</p>
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Notice of Annual General Meeting

- (C) Article 107(a)(i)
- (a) by adding the words "or any of his associates (as defined below in paragraph (f))" immediately after the words "any Director" in the 9th line;
 - (b) by adding the words "himself or any of his associates" immediately after the words "so contracting or" in the 12th line;
 - (c) by adding the words "or that of any of his associates" in the following places:
 - (i) immediately after the words "if his interest" in the 20th line;
 - (ii) immediately after the words "nature of his interest" in the 22nd line;
 - (d) by adding the words "or any of his associates" immediately after the words "in the notice, he" in the 4th line from the bottom of Article 107(a)(i);
- (D) Article 107(a)(ii)
- (a) by adding the words "and his associates" immediately after the words "Any Director" in the 1st line;
 - (b) by adding the words "or any of his associates" in the following places:
 - (i) immediately after the words "received by him" in the 12th line;
 - (ii) immediately after the words "notwithstanding that he" in the 32nd line;
 - (c) by adding the words "or any of their associates" immediately after the words "or any of them" in the 25th line;
- (E) Article 107(c)
- (a) by adding the words "or his associate" immediately after the words "he" in the 3rd line of the marginal notes;
 - (b) by deleting the words "in respect of" immediately after the words "of the Board" in the 3rd line and replacing them by the word "approving";
 - (c) by adding the words "or any of his associates" in the following places:
 - (i) immediately after the words "in which he" in the 5th line;
 - (ii) immediately after the words "to the Director" in the 1st line of Article 107(c)(i)(aa);
 - (d) by adding the words "or any of them" immediately after the words "undertaken by him" in the 3rd line of Article 107(c)(i)(aa);

Notice of Annual General Meeting

- (e) by adding the words “or any of his associates” in the following places:
 - (i) immediately after the word “Director” in the 5th line of Article 107(c)(i)(bb);
 - (ii) immediately after the word “Director” in the 7th line of Article 107(c)(ii);
 - (iii) immediately after the word “Director” in the 2nd and the 5th line of Article 107(c)(iii);
 - (f) by deleting the words “Associates (as defined below in paragraph (f))” in the 8th and 9th line of Article 107(c)(iii) and replacing them by the word “associate”;
 - (g) by adding the words “or that of his associate(s)” immediately after “his interest” in the 13th line of Article 107(c)(iii);
 - (h) by deleting the word “he” immediately after the word “which” in the 5th line of Article 107(c)(iv)(aa) and replacing it by the words “the Director or any of his associates”;
 - (i) by adding the words “, their associates” immediately after the word “Directors” in the 6th line of Article 107(c)(iv)(bb);
 - (j) by adding the words “or any of his associate” immediately after the word “Director” in the 9th line of Article 107(c)(iv)(bb) and the 2nd line of Article 107(c)(v);
 - (k) by adding the words “or their” immediately after the words “of his” in the 5th line of Article 107(c)(v);
- (F) Article 107(e)
- (a) by adding the words “or any of his associates” immediately after the words “a Director’s” in the 2nd line;
 - (b) by adding the words “or any of his associates” immediately after the word “Chairman” in the 12th line;
 - (c) by adding the words “or any of his associates” in the following places:
 - (i) immediately after the words “Director concerned” in the 19th line;
 - (ii) immediately after the word “Chairman” in 20th line;

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(G) Article 107(f)

by deleting the entire Article 107(f) and its marginal notes and replacing them by the following:

“Definition of “associates” (f) For the purposes of paragraphs (a), (c) and (e), “associates” shall have the meaning ascribed to which term in the Listing Rules.”; and

(H) Article 120

by adding the words “during a period of” immediately before the words “not less than seven” in the 4th line, by adding the words “days commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days” immediately after the words “not less than seven” in the 4th line and by deleting the words “and not more than 28 clear” in the 4th line.”

By order of the Board
Chiu Yuk Ching
 Secretary

Dated 30th March 2004

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.