



Q9 Technology Holdings Limited

(九方科技控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)



FIRST
QUARTERLY
REPORT
2004

*For identification purpose only

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

FINANCIAL HIGHLIGHTS

- HK\$2,700,000 turnover was achieved for the three months ended 31st March 2004, representing an increase of 75.8 % from the corresponding period of last year.
- HK\$2,025,000 OEM licensing revenue was achieved for the three months ended 31st March 2004, representing an increase of 417 % from the corresponding period of last year. OEM license revenue represents 75 % of total turnover for the three months ended 31st March 2004.
- Two new OEM license agreements were signed by the Group during the first three-month period ended 31st March 2004.
- HK\$675,000 Packaged software sales was achieved for the first three-month period ended 31st March 2004, representing a decrease of 41 % from the corresponding period of last year.
- Total operating expenses in the first three-month period of 2004 was reduced by HK\$557,000 or 15.4 %, as compared to the corresponding period of last year.
- The Group recorded a net loss attributable to shareholders for the three months ended 31st March 2004 of HK\$491,000 (which is a reduction of HK\$1,869,000 from the corresponding period of 2003 with net loss attributable to shareholders for that period being HK\$2,360,000).

The unaudited consolidated results for the three months ended 31st March 2004 and the comparison with last year are set out in the accompanying table.

THREE MONTH RESULTS (UNAUDITED)

The Board of Directors (the "Directors") of Q9 Technology Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31st March 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 31st March	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	2,700	1,536
Cost of sales		<u>(129)</u>	<u>(185)</u>
Gross profit		2,571	1,351
Other revenues	2	4	88
Selling and distribution expenses		(809)	(978)
Research and development expenses		(454)	(621)
General and administrative expenses		<u>(1,803)</u>	<u>(2,024)</u>
Loss from operations		(491)	(2,184)
Share of losses of an associate		<u>—</u>	<u>(176)</u>
Loss attributable to shareholders		<u>(491)</u>	<u>(2,360)</u>
		<i>HK Cent</i>	<i>HK Cent</i>
Loss per share - Basic	4	<u>0.04</u>	<u>0.19</u>

Notes:

1 Basis of preparation

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

2 Turnover, revenue and segment information

	Unaudited Three months ended 31st March	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods	675	1,144
Licensing	2,025	392
	<u>2,700</u>	<u>1,536</u>
Other revenues		
Interest income	4	88
Sundry income	—	—
	<u>4</u>	<u>88</u>
Total revenues	<u>2,704</u>	<u>1,624</u>

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.

The Group's turnover by geographical segment analysis is as follows:

	Unaudited Three months ended 31st March	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	2,302	1,149
PRC	398	387
	<u>2,700</u>	<u>1,536</u>

3 Taxation

No provision for Hong Kong profits tax has been made as the Group did not derive any assessable profit in Hong Kong for the three months ended 31st March 2004 (three months ended 31st March 2003: Nil).

The net deferred tax assets are not recognized as it is uncertain whether future taxable profit will be available for utilising the accumulated tax losses. (31st March 2003: Nil).

4 Loss per share

The calculation of basic loss per share for the three months ended 31st March 2004 is based on the unaudited consolidated loss attributable to shareholders of HK\$491,000 (three months ended 31st March 2003: HK\$2,360,000) and on the weighted average of 1,246,350,000 (three months ended 31st March 2003: 1,246,350,000) ordinary shares in issue during the periods.

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

5 Interim dividend

The Directors do not recommend the payment of interim dividend for the three months ended 31st March 2004 (three months ended 31st March 2003: Nil).

6 Reserves

Movement of reserves of the Group are as follows:

	Share premium (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Warrants reserve (unaudited) HK\$'000	Reorganisation reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
Balance at 1st January 2003	87,601	37	6,250	3,000	(71,505)	25,383
Loss for the three months ended 31st March 2003	—	—	—	—	(2,360)	(2,360)
Balance at 31st March 2003	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(73,865)</u>	<u>23,023</u>
Balance at 1st January 2004	87,601	37	6,250	3,000	(76,312)	20,576
Loss for the three months ended 31st March 2004	—	—	—	—	(491)	(491)
Balance at 31st March 2004	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(76,803)</u>	<u>20,085</u>

BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the three months ended 31st March 2004 amounted to HK\$2,700,000, representing an increase of 75.8% from the corresponding period of last year. OEM licensing revenue for the first three-month period of 2004 amounted to HK\$2,025,000 representing about 75% of turnover (first three-month period of 2003: 25.5%). Loss attributable to shareholders for the three months ended 31st March 2004 amounted to HK\$491,000 compared to HK\$2,360,000 for the corresponding period of last year. The loss per share for the first three-month period was HK0.04 cent (first three-month period of 2003: loss per share of HK0.19 cent).

In 2004, the Group continued to focus on marketing existing products to OEM customers through its own sales force, developing new products only in response to definite orders from customers, and penetrating the end user markets through the resources and network of its strategic partners. The development for a Thai version of Q9 CIS was completed during the first quarter of 2004, which was developed at the request of an OEM customer. During the three months ended 31st March 2004, the Group further reduced its operating expenses, and total operating expenses was reduced by 15.4% compared to corresponding period in 2003. Total operating expenses for the first three-month period of 2004 amounted to HK\$3,066,000 (first three-month period of 2003: HK\$3,623,000).

The Group continues to concentrate its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes, and steady progress have been made. During the quarter ended 31st March 2004, the Group signed two additional OEM licensing agreements, one with a PHS phone manufacturer and another with a SMS phone manufacturer. Packaged software sales for the three months ended 31st March 2004 decreased by 41% compared to corresponding period in 2003, as new versions of Q9 CIS were not released during the first quarter of 2004 and the performance of the sales team and its distributors in Taiwan and PRC were below expectation. New versions of Q9 CIS will be released in Hong Kong during the third quarter of 2004, with advanced translation features and Cantonese pronunciation developed in response to customers' request. The Group has been reviewing the business arrangements with the sales team and the distributors. The Group terminated the software package distribution agreement with Taiwan Q9 Technology Corporation during the first quarter of 2004.

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

As at 31st March 2004, 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 required standards of dealing by Directors as referred to in Rule 5.46 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	Other interests		
			(Note 1)			
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

Note:

- 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 March 2004.

As at 31st March 2004, 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 March 2004	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 March 2004.

No option has granted to a Director which has lapsed during the three months ended 31st March 2004.

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

No option had been granted to the Directors or the chief executives under the New Share Option Scheme for the three months ended 31st March 2004.

Save as disclosed above, as at 31st March 2004, 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 required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules. During the three months ended 31st March 2004, no debt securities had been issued by the Group.

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

As at 31st March 2004, 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 (40.99%) 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 March 2004, 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the minimum standards of good practice concerning the general management responsibilities of the board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the accounting period covered by the first quarterly report.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31st March 2004.

AUDIT COMMITTEE

The first quarterly results has been reviewed by the audit committee in accordance with rule 5.30 of the GEM Listing Rules.

By order of the Board
Leung Lap Yan
Chairman

Hong Kong, 12th May 2004