



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



*For identification purpose only

Annual Report **2004**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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\$6,683,000 for the year ended 31st December 2004, representing a decrease of 31.1% from the previous year.

The Group recorded HK\$3,498,000 of OEM licensing revenue for the year 2004, representing a decrease of 37.0% from the previous year. OEM licensing revenue for the year 2004 represents about 52.3% of turnover for the year, as compared to 57.2% in the year of 2003. The decrease was the result of reduction in total quantity of device manufactured by OEM customers of Q9 CIS, especially by the few large OEM customers, the decrease in average OEM licensing fee charged, and cancellation of exclusive agency agreements and resulting loss of licensing income from Q9 Technology Corporation and Idall. Q9 CIS and Qcode CIS package sales and software licensing revenue from Institution Customers for the year 2004 recorded a decrease of 23.3% from the previous year.

The Group recorded a net loss attributable to shareholders for 2004 of HK\$7,816,000 (2003: HK\$4,807,000). The Group continued its marketing efforts to OEM customers, and the Group signed nine new OEM licensing agreements in 2004. The Group will continue to pursue this strategy, but will also explore new business opportunities in 2005, capitalizing on the market awareness of Q9 CIS and the Q9 brand in Hong Kong.

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st December 2004 amounted to HK\$6,683,000, representing decrease of 31.1% from the previous year. Loss attributable to shareholders for the year 2004 of HK\$7,816,000 compared to HK\$4,807,000 in 2003. The loss per share was HK0.63 cents (2003: a loss per share of HK0.39 cents).

REVIEW OF OPERATIONS

During the year, the Group experienced double digit drop in both OEM licensing revenue and software licensing and package sales. Significant portion of OEM licensing revenue was generated by a few large OEM customers, and their reduced volume of device manufactured with Q9 CIS embedded in turn adversely affect the revenue of the Group in 2004. The drop in software licensing and package sales was due to limited exposure of Q9 CIS in the retail and corporate market, confined by the number of retail shops and size of the sales force. The Group will continue to develop new and more effective ways to market Q9 CIS to a broader user base through existing as well as new sales channels. Total operating expenses increased by HK\$496,000 to HK\$14,166,000, representing an increase of 3.6% over 2003.

Management's Discussion and Analysis

The following represents significant events underlying the Group's performance during the financial year 2004:

- The Group cancelled its exclusive agency agreement on Q9 CIS Packaged Software with Idall in China and Q9 Technology Corporation in Taiwan. As Q9 Technology Corporation did not have adequate resources to market Q9 CIS Packaged Software profitably in Taiwan. No licensing fee was derived from Q9 Technology Corporation during 2004, as compared to HK\$672,000 of licensing fee generated for the Group in 2003.
- Total operating costs increased by HK\$496,000 from previous year, which was mainly attributable to increase in provision for doubtful debts.
- 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\$22,040,000 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 2004 decreased by 37.0% from that of the previous year. During the Year 2004, the Group did not derive any OEM licensing income from the Group's associated company in Taiwan, as the net liabilities of Q9 Technology Corporation exceeded that of its net assets. The Group continued to receive licensing income from the Q9 CIS embedded desk-top short message phones marketed in Hong Kong by a large fixed line operator in 2004, but in significantly reduced volume and dollar value as compared with 2003. The Thai version of Q9 CIS developed by the Group and tested by an existing customer in 2004 did not result in any licensing revenue, as the customer decided not to pursue this project during 2004.

Management's Discussion and Analysis

PROSPECTS

The focus of the Group's efforts for the year 2005 will continue to be to market Q9 CIS to OEM customers, and to explore the feasibility of developing new partners and new sales channels in the Greater China region to penetrate the end user markets, and to refer OEM customers to the Group based on sales agency and co-operation arrangements with these partners. The Group will continue to capitalize on the market awareness of Q9 brand and its customer base, including several World Class companies, and its vast pool of patented and well developed technology products to pursue the OEM business, and generate positive return on the Group's significant investment in research and development in the past. Management will strive to expand and broaden the customer base in the OEM market and the software market, and actively explore new sources of revenue from new business markets in 2005.

Commitments

The Group has no credit facilities and no borrowing outstanding as at 31st December 2004 (31st December 2003: Nil).

(a) Capital commitment

The Group has no capital commitment as at 31st December 2004 (31st December 2003: Nil).

(b) Commitments under operating leases

At 31st December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Group were payable as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	1,412	336
In the second to fifth year	746	604
	2,158	940

(c) Other commitment

As at 31st December 2004, the Group had no other commitment (31st December 2003: 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 2004 (31st December 2003: Nil).

The Group has no debt as at 31st December 2004 (31st December 2003: Nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil as at 31st December 2004 (31st December 2003: 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

There was no significant investment made during the year.

Acquisition/disposal of a subsidiary

The Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31st December 2004.

Human resources

Staff number

As at 31st December 2004, the Group employed 33 staffs (31st December 2003: 32). Total staff costs, including directors' emoluments were approximately HK\$6.4 million for the year ended 31st December 2004 as compared with that of approximately HK\$7.5 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.

Management's Discussion and Analysis

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 2004 (31st December 2003: Nil).

Credit policy

The credit terms given to customers 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

Details of the segmental information are set out in note 3 to the financial statements.

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
Mr. Woo Wei Chun Joseph
(appointed on 21st September 2004)

COMPLIANCE OFFICER

Mr. Tam Kam Biu William

AUDIT COMMITTEE

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Woo Wei Chun Joseph

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

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th 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

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 2004 was a disappointing 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, helped to contain operating costs to acceptable level, but the Group's heavy reliance on a few major OEM customers adversely affect the results of the Group, as some of these customers reduced their volume of products embedded with Q9 CIS. The Group's strategy to leverage on the distribution network and resources of local strategic partners in China and Taiwan to penetrate the end user, also experienced some set back as the local partners did not perform as originally anticipated, and subsequently, the agency agreements with these partners were revoked and cancelled.

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 drop in sales revenue for both OEM sales and packaged software sales in the Year 2004 as compared with the previous year showed that whilst Q9 CIS have gained market acceptance and awareness in Hong Kong, the effort to penetrated the China and Taiwan market have not been fruitful. In the Year 2004, the Group's OEM sales revenue decreased by 37% from that of the previous year, while packaged software sales to the end users decreased by 23% over that of the previous year. The Group believes there is more effective way to grow and penetrate the OEM business as well as the Software business.

The Group terminated the agency arrangements with both Idall in China and Q9 Technology Corporation in Taiwan, who are responsible for promoting Q9 CIS to the end user market during the Year 2004; new partners, new approaches and alternatives arrangements are being considered, with the objective to improve the penetration of the end user market.

Management of the Group will continue its business focus and marketing thrust in the most cost effective manner in the OEM market, explore new business markets and opportunities, 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 contained the costs of investment in research and development, advertising and promotion, and general administrative expenses, but we experienced some set back in the reduction sales revenue for both the OEM and end user markets, and the need to make provision for bad debts. The operating results of the Group in 2004 was below our expectation, and the Group will strive to develop new ways and new channels to market Q9 CIS more effective to the customers, and to explore new business markets in 2005.

Management believes the Group has sufficient resources and ability to reverse the negative trends experienced in 2004, 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, 18th March 2005

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 56, 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 60, 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 48, 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. He is also an independent non-executive director of Soluteck Holdings 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 Institute of Certified Public Accountants in September 1987 and an associate of the Association of Chartered Certified Accountants in May 1988.

Mr. Warren Leung Lap Fu, aged 54, 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 35, is one of the founders of the Group and acts as an advisor on technology for chinese input system. 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 41, 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 Institute of Certified Public 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 56, 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 46, 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 47, 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 35, 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.

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 37, 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 and audit committee member of the Company in September 2000. Mr. Ip is an independent non-executive director of Asia Standard Hotel Group Limited.

Mr. Angus Tse Wang Cheung, aged 39, 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 and audit committee member of the Company in September 2000.

Mr. Joseph Woo Wei Chun, aged 40 is currently the director of a private company. He has about eighteen years of experience in accounting, auditing, financing investment and management. Mr. Woo is registered as a certified public accountant in the State of Illinois in U.S.A. and is an associated member of the Hong Kong Institute of Certified Public Accountants. Mr. Woo holds a bachelor degree in Accounting with Computing and a master degree in Business Administration. He was appointed as an independent non-executive director and audit committee member of the Company in September 2004.

Directors' Report

For the year ended 31st December 2004

The Directors present their report and the audited financial statements for the year ended 31st December 2004.

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 2004 and the state of its affairs of the Group and the Company at that date are set out in the financial statements on pages 27 to 53.

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 19 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the 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 share capital of the Company are set out in note 17 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for last five financial years is set out on page 54.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2004, determined in accordance with Section 34 of the Companies Law (2001 Revision) of the Cayman Islands, amounted to approximately HK\$9,943,000 (2003 : HK\$17,701,000). 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 2004

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or the Company's Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The Directors of the Company during the year were as follows:

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. Wan Xiaolin

Independent non-executive directors:

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Woo Wei Chun Joseph (appointed on 21st September 2004)

In accordance with Article 116 of the Company's Articles of Association, all the 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 11 to 13.

Directors' Report

For the year ended 31st December 2004

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Leung Lap Yan, Mr. Leung Lap Fu Warren and Mr. 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 and were expired on 30th April 2004. Mr. Tam Kam Biu William and Dr. Lim Yin Cheng have 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 and Mr. Lau Man Kin's interests in two contracts entered into by the Group are set out in note 21(iii) 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.

Directors' Report

For the year ended 31st December 2004

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

As at 31st December 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 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 ORDINARY SHARES OF THE COMPANY

Director	Number of shares held				Total	Approximate percentage of holding
	Personal interests	Family interests	Corporate interests	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 2004.

Directors' Report

For the year ended 31st December 2004

As at 31st December 2004, information on the 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 2004	Exercise price	Option exercise period	Date of grant
Dr. Lim Yin Cheng	84,480,000	HK\$0.36	See note 2(a) below	5/5/2001
Mr. Leung Lap Yan	71,720,000	HK\$0.36	See note 2(a) below	5/5/2001
Mr. Leung Lap Fu Warren	14,470,000	HK\$0.36	See note 2(b) below	5/5/2001
Mr. Lau Man Kin	13,390,000	HK\$0.36	See note 2(a) below	5/5/2001
Mr. Tam Kam Biu William	6,400,000	HK\$0.36	See note 2(b) below	5/5/2001
Mr. Fung Siu To Clement	2,560,000	HK\$0.36	See note 2(b) below	5/5/2001
Mr. Kwan Kin Chung	1,150,000	HK\$0.36	See note 2(b) 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(b) below	5/5/2001
Mr. Lun Pui Kan	3,000,000	HK\$0.45	18/5/2001 to 17/5/2011	18/5/2001

Notes :

- (1) 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 or lapsed during the year ended 31st December 2004.
- (2) Option exercise period commenced from the date of grant, terminating ten years thereafter.

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 (a)	Note (b)
18th November 2001	10%	10%
18th May 2002	10%	20%
18th November 2002	10%	20%
18th May 2003	20%	20%
18th November 2003	20%	20%
18th May 2004	20%	10%
18th November 2004	10%	—

Directors' Report

For the year ended 31st December 2004

(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 2004.

Save as disclosed above, as at 31st December 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 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 year, no debt securities had been issued by the Group.

SHARE OPTION SCHEMES

(a) Old Share Option Schemes

As at 31st December 2004, options to subscribe for up to an aggregate of 219,750,000 shares of HK\$0.01 each at a subscription price ranging between HK\$0.142 and HK\$0.45 per share had been 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	Exercise period (note 1)	Outstanding	Lapsed	Outstanding
				as at 1st January 2004		as at 31st December 2004
Directors	5/5/2001	HK\$0.36	See note 3(a) below	169,590,000	—	169,590,000
Directors	5/5/2001	HK\$0.36	See note 3(b) below	26,500,000	—	26,500,000
Directors	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	4,000,000	—	4,000,000
Employees	5/5/2001	HK\$0.36	See note 3(b) below	6,910,000	630,000 (Note 2)	6,280,000
Employee	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	720,000	—	720,000
Employee	11/10/2001	HK\$0.142	11/10/2001 to 10/10/2011	100,000	—	100,000
Advisors	5/5/2001	HK\$0.36	See note 3(b) below	12,560,000	—	12,560,000
				<u>220,380,000</u>	<u>630,000</u>	<u>219,750,000</u>

Directors' Report

For the year ended 31st December 2004

Notes:

- (1) The exercise period is, unless otherwise stated in that column, from 5th May 2001, the date of grant of the options (subject to such options having vested, details of which are set out below), to 4th May 2011, ten years from the date of grant.
- (2) Options granted to employees are lapsed when the employees cease their employment with the Company.
- (3) 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 (a)	Note (b)
18th November 2001	10%	10%
18th May 2002	10%	20%
18th November 2002	10%	20%
18th May 2003	20%	20%
18th November 2003	20%	20%
18th May 2004	20%	10%
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.

Directors' Report

For the year ended 31st December 2004

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 2004

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.

As at 31st December 2004, options to subscribe for up to an aggregate of 10,000,000 shares of HK\$0.01 each at a subscription price HK\$0.042 per share had been granted to certain advisors under the New Share Option Scheme. During the year, no option had been granted, exercised or lapsed.

Grantee	Date of grant	Exercise price	Exercise period	Outstanding	Outstanding	
				as at 1st January 2004	Lapsed	as at 31st December 2004
Advisors	10/7/2003	HK\$0.042	10/7/2003 to 9/7/2013	10,000,000	—	10,000,000

VALUATION OF SHARE OPTIONS

The options granted are not recognised 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 at the year end 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.

Directors' Report

For the year ended 31st December 2004

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

As at 31st December 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 (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) Mega Fusion Limited is a wholly-owned subsidiary of Asia Orient Holdings (BVI) Limited, which is, in turn, a wholly-owned subsidiary of Asia Orient Holdings Limited. Asia Orient Holdings (BVI) Limited and 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 (35.59%) 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) Winway H.K. Investments Limited is a wholly-owned subsidiary of Culturecom Investments Limited, which is, in turn, a wholly-owned subsidiary of Culturecom Holding (BVI) Limited. Culturecom Holding (BVI) Limited is a wholly-owned subsidiary of Culturecom Holding Limited. Each of Culturecom Investments Limited, Culturecom Holding (BVI) Limited and 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 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.

Directors' Report

For the year ended 31st December 2004

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	26.9%
— five largest suppliers combined	88.9%

Sales

— the largest customer	18.6%
— five largest customers combined	50.0%

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

MANAGEMENT CONTRACTS

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

DIRECTOR' INTERESTS IN COMPETING 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.

BOARD PRACTICES AND PROCEDURES

Throughout the year, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the independent non-executive directors of the Company and the Company considers all existing independent non-executive directors are independent.

Directors' Report

For the year ended 31st December 2004

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Ip Chi Wai, Mr. Tse Wang Cheung Angus and Mr. Woo Wei Chun Joseph. The terms of reference of the audit committee have been established with regard to Rules 5.28 to 5.33 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 ended 31st December 2004, three meetings were held. The audit committee has reviewed with the management this audited annual reports.

AUDITORS

The financial statements have been audited by Grant Thornton who retire and, being eligible, offer themselves for re-appointment.

PricewaterhouseCoopers were auditors of the Company for the year ended 31st December 2002.

On behalf of the Board

Leung Lap Yan

Chairman

Hong Kong, 18th March 2005

Auditors' Report

Certified Public Accountants
Hong Kong Member Firm of Grant Thornton International

Grant Thornton 
均富會計師行

TO THE MEMBERS OF Q9 TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 53 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 Institute of Certified Public 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 2004 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, 18th March 2005

Q9 Technology Holdings Limited *Annual Report 2004*

Consolidated Income Statement

For the year ended 31st December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3	6,683	9,705
Cost of sales		<u>(514)</u>	<u>(899)</u>
Gross profit		6,169	8,806
Other revenue	3	213	255
Selling and distribution expenses		(3,310)	(3,789)
Research and development expenses		(1,489)	(1,965)
General and administrative expenses		(7,474)	(7,553)
Other operating expenses		<u>(1,893)</u>	<u>(363)</u>
Loss from operations		(7,784)	(4,609)
Finance costs		(32)	—
Share of losses of an associate		—	(454)
Gain on deemed disposal of a subsidiary		<u>—</u>	<u>256</u>
Loss before taxation	4	(7,816)	(4,807)
Taxation	5	<u>—</u>	<u>—</u>
Loss attributable to shareholders	6	(7,816)	(4,807)
		HK Cents	HK Cents
Loss per share - Basic	7	<u>(0.63)</u>	<u>(0.39)</u>

Consolidated Balance Sheet

As at 31st December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	943	1,615
Interest in an associate	11	—	—
		943	1,615
Current assets			
Inventories	13	350	485
Short term investment	14	283	—
Trade receivables	15	1,423	1,453
Other receivables, prepayments and deposits		1,673	800
Amount due from a related company	12	56	81
Amount due from an associate	11	—	735
Cash at banks and in hand		22,040	28,839
		25,825	32,393
Current liabilities			
Trade payables	16	64	143
Other payables and accruals		1,398	825
Amounts due to related companies	12	82	—
		1,544	968
Net current assets		24,281	31,425
Total assets less current liabilities		25,224	33,040
CAPITAL AND RESERVES			
Share capital	17	12,464	12,464
Reserves	19	12,760	20,576
Shareholders' funds		25,224	33,040

Leung Lap Yan
Director

Tam Kam Bui, William
Director

Balance Sheet

As at 31st December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current asset			
Investments in subsidiaries	10	7,501	7,501
Current assets			
Other receivable		—	1
Amounts due from subsidiaries	10	21,222	29,084
Cash at banks		144	144
		<u>21,366</u>	<u>29,229</u>
Current liabilities			
Other payables and accruals		210	315
		<u>21,156</u>	<u>28,914</u>
Net current assets		<u>21,156</u>	<u>28,914</u>
Net assets		<u><u>28,657</u></u>	<u><u>36,415</u></u>
CAPITAL AND RESERVES			
Share capital	17	12,464	12,464
Reserves	19	16,193	23,951
		<u>28,657</u>	<u>36,415</u>
Shareholders' funds		<u><u>28,657</u></u>	<u><u>36,415</u></u>

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2004

	2004 HK\$'000	2003 HK\$'000
Total equity at 1st January	33,040	37,847
Loss attributable to shareholders	(7,816)	(4,807)
Total equity at 31st December	<u>25,224</u>	<u>33,040</u>

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities		
Loss before taxation	(7,816)	(4,807)
Adjustments for:		
Interest income	(207)	(254)
Interest paid	32	—
Depreciation	700	911
Share of losses of an associate	—	454
Gain on deemed disposal of a subsidiary	—	(256)
Provision for obsolete inventories	39	363
Provision for amount due from an associate	733	—
Provision for doubtful debts	503	—
Unrealised holding loss on short term investment	169	—
Loss on disposal of property, plant and equipment	12	179
	<hr/>	<hr/>
Operating loss before working capital changes	(5,835)	(3,410)
Decrease in inventories	96	249
Increase in trade and other receivables, prepayments and deposits	(1,346)	(498)
Decrease/(Increase) in amount due from a related company	25	(81)
Decrease/(Increase) in amount due from an associate	2	(735)
Increase/(Decrease) in trade and other payables and accruals	494	(576)
Increase in amounts due to related companies	82	—
	<hr/>	<hr/>
Net cash outflow from operations	(6,482)	(5,051)
Interest paid	(32)	—
	<hr/>	<hr/>
Net cash used in operating activities	(6,514)	(5,051)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property, plant and equipment	(40)	(56)
Proceeds from disposal of property, plant and equipment	—	103
Purchase of short term investment	(452)	—
Interest received	207	254
Cash outflow from deemed disposal of a subsidiary	—	(81)
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(285)	220
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(6,799)	(4,831)
Cash and cash equivalents at 1st January	28,839	33,670
	<hr/>	<hr/>
Cash and cash equivalents at 31st December	22,040	28,839
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December 2004

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"). The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in computer software and embedded systems development, and sales 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

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 27 to 53 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention as modified by the revaluation of short term investments.

(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 intercompany 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.

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 from the sale and the Group's share of its net assets and any related accumulated foreign currency translation reserve.

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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) 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 of the associates. 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.

Provision is made against the amounts due from the associates to the extent that they are considered to be doubtful. Amounts due from the associates in the balance sheet is stated net of such provision.

(e) Property, plant and equipment

(i) Depreciation

Depreciation 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	18% - 20%
Furniture, fixtures and office equipment	18% - 20%

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) 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.

(f) 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 net of such provision.

(g) 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.

(h) Short term investments

Securities that are held for trading purpose are classified as short term investments and are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

Gains or losses on disposal of short term investments are accounted for in the income statement as they arise.

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) 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.

(j) 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.

(k) 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.

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) 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.

(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.

(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.

(m) 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 and associates 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.

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Income tax

Income tax 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual 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 for its employees in Hong Kong, pursuant to which 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 income statement as incurred. The assets of the scheme are held separately from those of the Group in an independent administered fund.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute certain percentage of their respective payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(p) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the Financial Statements

For the year ended 31st December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 proportion basis by reference to the principal outstanding and the interest rate applicable.

(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.

(s) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Notes to the Financial Statements

For the year ended 31st December 2004

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of goods	3,185	4,151
Licensing income	3,498	5,554
	6,683	9,705
Other revenue		
Interest income	207	254
Sundry income	6	1
	213	255
Total revenue	6,896	9,960

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 sales and licensing of software and embedded systems is the Group's only business segment.

Notes to the Financial Statements

For the year ended 31st December 2004

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Geographical segment analysis is as follows:

	Hong Kong HK\$'000	Mainland China HK\$'000	Group HK\$'000
2004			
Segment revenue:			
Sales to external customers	<u>5,985</u>	<u>698</u>	<u>6,683</u>
Segment results	<u>(7,106)</u>	<u>(10)</u>	<u>(7,116)</u>
Unallocated costs			<u>(668)</u>
Loss from operations			<u>(7,784)</u>
Segment assets	<u>23,279</u>	<u>3,206</u>	<u>26,485</u>
Unallocated assets			<u>283</u>
Total assets			<u>26,768</u>
Capital expenditure	<u>40</u>	<u>—</u>	<u>40</u>
2003			
Segment revenue:			
Sales to external customers	<u>8,018</u>	<u>1,687</u>	<u>9,705</u>
Segment results	<u>(4,147)</u>	<u>604</u>	<u>(3,543)</u>
Unallocated costs			<u>(1,066)</u>
Loss from operations			<u>(4,609)</u>
Segment assets	<u>30,810</u>	<u>3,198</u>	<u>34,008</u>
Capital expenditure	<u>18</u>	<u>38</u>	<u>56</u>

Notes to the Financial Statements

For the year ended 31st December 2004

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and exclude short term investments. Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to property, plant and equipment.

4. LOSS BEFORE TAXATION

	2004 HK\$'000	2003 HK\$'000
Loss before taxation is arrived at after charging :		
Auditors' remuneration		
- current year	240	240
- overprovision in prior year	(11)	(28)
Depreciation	700	911
Staff costs (including directors' remuneration (note 8 (a)) and contributions to retirement benefits scheme of HK\$181,000 (2003 : HK\$191,000))	6,382	7,458
Loss on disposal of property, plant and equipment	12	179
Unrealised holding loss on short term investment #	169	—
Operating lease charges in respect of land and buildings	1,371	1,163
Provision for obsolete inventories *	39	363
Provision for doubtful debts *	503	—
Provision for amount due from an associate *	733	—
Finance costs - Interest charges on securities financing	32	—
	=====	=====

included in general and administrative expenses

* included in other operating expenses

Notes to the Financial Statements

For the year ended 31st December 2004

5. TAXATION

No provision for current tax has been made as the Group did not derive any assessable profit in Hong Kong and elsewhere for the year (2003: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(7,816)</u>	<u>(4,807)</u>
Tax at applicable rate of 17.5% (2003 : 17.5%)	(1,368)	(841)
Effect of different income tax rates	—	(14)
Tax effect of non-deductible expenses	122	92
Tax effect of non-taxable revenues	(34)	(87)
Tax losses not recognised as deferred tax asset	1,204	843
Other temporary differences not recognised	76	97
Utilisation of tax losses previously not recognised	<u>—</u>	<u>(90)</u>
Actual tax expense	<u>—</u>	<u>—</u>

At 31st December 2004, the Group has net deferred tax assets mainly arising from tax losses of approximately HK\$61,000,000 (2003: HK\$54,000,000). However, the net deferred tax assets have not been 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\$7,758,000 (2003: HK\$1,432,000).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$7,816,000 (2003: HK\$4,807,000) and on 1,246,350,000 (2003: 1,246,350,000) ordinary shares in issue during the year.

No diluted loss 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 2004

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	60	20
Other emoluments to executive directors:		
Basic salaries, allowances and other benefits in kind	2,459	3,362
Contributions to retirement benefits scheme	51	60
	<u>2,570</u>	<u>3,442</u>

Five executive directors received individual emoluments for the year ended 31st December 2004 of approximately HK\$312,000 (2003: HK\$942,000), HK\$936,000 (2003: HK\$936,000), HK\$707,000 (2003: HK\$716,000), HK\$492,000 (2003: HK\$493,000), and HK\$63,000 (2003: HK\$335,000) respectively. The remaining five (2003: six) executive directors did not receive any emoluments during the year.

Each of the three independent non-executive directors (2003: one) received directors' fee of HK\$30,000 (2003: HK\$20,000), HK\$15,000 (2003: Nil) and HK\$15,000 (2003: Nil) respectively. One of the independent non-executive directors did not receive any fee in last year.

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 (2003: Nil). None of the directors waived or agreed to waive any emoluments during the year (2003: Nil).

(b) Five highest paid individuals

The five highest paid individuals of the Group during the year included four (2003: five) directors, details of whose remuneration are set out in note 8(a) above. Detail of the remuneration of the remaining one (2003: Nil) non-director, highest paid employee of the Group for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and other benefits in kind	325	—
Contributions to retirement benefits scheme	12	—
	<u>337</u>	<u>—</u>

The emoluments of the remaining non-director, highest paid individuals fell within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the non-director, highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

Notes to the Financial Statements

For the year ended 31st December 2004

9. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2004	1,834	3,671	5,505
Additions	24	16	40
Disposals	—	(102)	(102)
At 31st December 2004	1,858	3,585	5,443
Accumulated depreciation			
At 1st January 2004	1,204	2,686	3,890
Charge for the year	268	432	700
Disposals	—	(90)	(90)
At 31st December 2004	1,472	3,028	4,500
Net book value			
At 31st December 2004	386	557	943
At 31st December 2003	630	985	1,615

Notes to the Financial Statements

For the year ended 31st December 2004

10. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	<u>7,501</u>	<u>7,501</u>

Particulars of the Company's subsidiaries at 31st December 2004 are as follows:

Name	Place/ Country of incorporation and kind of legal entity	Particulars of issued capital	Percentage of issued capital held by the Company		Principal activities and place of operations
			Directly	Indirectly	
Q9 Technology (BVI) Limited	British Virgin Islands, limited liability company	100 ordinary shares of US\$1 each	100%	—	Investment holding in Hong Kong
Qcode Information Technology Limited	Hong Kong, limited liability company	500,000 ordinary shares of HK\$1 each	—	100%	Development, sales and licensing of computer software in Hong Kong
Qcode Chinese Computer Limited	Hong Kong, limited liability company	600,000 ordinary shares of HK\$1 each	—	100%	Holding of patents in Hong Kong
Qcode Technology Services Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	—	100%	Investment holding in Hong Kong
Q9 Technology (Shenzhen) Limited	Peoples' Republic of China ("PRC"), limited liability company	HK\$2,000,000	—	100%	Development, sales and licensing of computer software in the PRC

Notes to the Financial Statements

For the year ended 31st December 2004

10. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

(Continued)

(b) Amounts due from subsidiaries

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

11. INTEREST IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE

(a) Interest in an associate

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	—	—

The associate has incurred significant losses and the Group has taken up its share of the losses up to the carrying value of its investment in the associate 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 interest in the associate was stated at nil value at 31st December 2004.

Particulars of the associate at 31st December 2004 are as follows:

Name	Place of incorporation	Particulars of issued capital	Percentage of interest held indirectly	Principal activities and place of operations
Q9 Technology Corporation	Taiwan	1,800,000 ordinary shares of NT\$10 each	42.5%	Development, sales and licensing of computer software in Taiwan

(b) Amount due from an associate

As at 31st December 2004, there was an amount due from the associate of HK\$733,000 (2003: HK\$735,000), which is unsecured, interest free and repayable on demand. Full provision has been made against the amount due from the associate as at 31st December 2004.

Notes to the Financial Statements

For the year ended 31st December 2004

12. AMOUNTS DUE FROM / TO RELATED COMPANIES

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

13. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Merchandise	292	400
Finished goods	407	448
	<hr/>	<hr/>
	699	848
Less : Provision for obsolete inventories	(349)	(363)
	<hr/>	<hr/>
	350	485
	<hr/> <hr/>	<hr/> <hr/>

As at 31st December 2004, the carrying amount of inventories that are stated at net realisable value amounted to HK\$48,000 (2003: Nil).

14. SHORT TERM INVESTMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at market value	283	—
	<hr/> <hr/>	<hr/> <hr/>

15. TRADE RECEIVABLES

As at 31st December 2004, the ageing analysis of the trade receivables net of allowance was as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current	379	816
31 - 90 days	360	415
91 - 180 days	552	222
Over 180 days	132	—
	<hr/>	<hr/>
	1,423	1,453
	<hr/> <hr/>	<hr/> <hr/>

The majority of the Group's turnover is with credit terms of 30 days on average.

Notes to the Financial Statements

For the year ended 31st December 2004

16. TRADE PAYABLES

As at 31st December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current	10	102
31 - 90 days	32	37
91- 180 days	20	3
Over 180 days	2	1
	<u>64</u>	<u>143</u>

17. SHARE CAPITAL

	2004	2003
	HK\$'000	HK\$'000
Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid: 1,246,350,000 ordinary shares of HK\$0.01 each	<u>12,464</u>	<u>12,464</u>

Notes to the Financial Statements

For the year ended 31st December 2004

18. SHARE OPTION SCHEMES

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 2004.

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

Grantee	Date of grant	Exercise price	Exercise period	Outstanding as at 1st January 2004	Lapsed	Outstanding as at 31st December 2004
Old Share Option Schemes:						
Directors:						
Dr. Lim Yin Cheng	5/5/2001	HK\$0.36	Note 1 (a)	84,480,000	—	84,480,000
Mr. Leung Lap Yan	5/5/2001	HK\$0.36	Note 1 (a)	71,720,000	—	71,720,000
Mr. Leung Lap Fu, Warren	5/5/2001	HK\$0.36	Note 1 (b)	14,470,000	—	14,470,000
Mr. Lau Man Kin	5/5/2001	HK\$0.36	Note 1 (a)	13,390,000	—	13,390,000
Mr. Tam Kam Biu, William	5/5/2001	HK\$0.36	Note 1 (b)	6,400,000	—	6,400,000
Mr. Fung Siu To, Clement	5/5/2001	HK\$0.36	Note 1 (b)	2,560,000	—	2,560,000
Mr. Kwan Kin Chung	5/5/2001	HK\$0.36	Note 1 (b)	1,150,000	—	1,150,000
Mr. Kwan Po Lam, Phileas	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	1,000,000	—	1,000,000
Mr. Lun Pui Kan	5/5/2001	HK\$0.36	Note 1 (b)	1,920,000	—	1,920,000
Mr. Lun Pui Kan	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	3,000,000	—	3,000,000
Employees	5/5/2001	HK\$0.36	Note 1 (b)	6,910,000	630,000	6,280,000
Employee	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	720,000	—	720,000
Employee	11/10/2001	HK\$0.142	11/10/2001 to 10/10/2011	100,000	—	100,000
Advisors	5/5/2001	HK\$0.36	Note 1 (b)	12,560,000	—	12,560,000
New Share Option Scheme:						
Advisors (note 2)	10/7/2003	HK\$0.042	10/7/2003 to 9/7/2013	10,000,000	—	10,000,000
				230,380,000	630,000	229,750,000
				230,380,000	630,000	229,750,000

Notes to the Financial Statements

For the year ended 31st December 2004

18. SHARE OPTION SCHEMES (Continued)

Notes:

- (1) Option exercise period commenced from the date of grant and will terminate ten years thereafter. 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	
	(a)	(b)
18th November 2001	10%	10%
18th May 2002	10%	20%
18th November 2002	10%	20%
18th May 2003	20%	20%
18th November 2003	20%	20%
18th May 2004	20%	10%
18th November 2004	10%	—

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

19. 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 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 and 1st January 2004	87,601	37	6,250	3,000	(76,312)	20,576
Loss for the year	—	—	—	—	(7,816)	(7,816)
Balance at 31st December 2004	87,601	37	6,250	3,000	(84,128)	12,760

Notes to the Financial Statements

For the year ended 31st December 2004

19. 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 2003	87,601	6,250	2,501	(70,969)	25,383
Loss for the year	—	—	—	(1,432)	(1,432)
Balance at 31st December 2003 and 1st January 2004	87,601	6,250	2,501	(72,401)	23,951
Loss for the year	—	—	—	(7,758)	(7,758)
Balance at 31st December 2004	87,601	6,250	2,501	(80,159)	16,193

Notes:

- (a) The warrants reserves of the Group and the Company represents the proceeds from the issue of 250,000,000 warrants on 5th February 2002. The subscription period of the warrants was expired on 7th August 2003 and no warrants were exercised up to the date of expiry.
- (b) The reorganisation reserves of the Group and the Company represents 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.

20. OPERATING LEASE COMMITMENTS

As at 31st December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Group were payable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	1,412	336
In the second to the fifth year	746	604
	2,158	940

The Company did not have any operating lease commitments as at 31st December 2004.

Notes to the Financial Statements

For the year ended 31st December 2004

21. RELATED PARTY TRANSACTIONS

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

	Notes	2004 HK\$'000	2003 HK\$'000
Office and warehouse rental expenses	(i)	528	637
Office rental income		—	352
Building management and company secretarial fees	(ii)	253	328
License fee income		—	672
Consultancy fees	(iii)	1,102	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 and company secretarial fees were paid to certain subsidiaries of a substantial shareholder of the Company and were charged at fixed monthly rates.
- (iii) Consultancy fees were paid to related companies for providing marketing and public relationship services and technology consultancy services to the Group at a fixed monthly fee of HK\$70,000 and HK\$22,000 respectively. Two of the directors, Mr. Leung Lap Yan and Mr. Lau Man Kin, have equity interests in the related companies.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 27 to 53 were approved by the board of directors on 18th March 2005.

Financial Summary

	2004 HK\$'000	Year ended 31st December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Results					
Loss attributable to shareholders	<u>(7,816)</u>	<u>(4,807)</u>	<u>(32,145)</u>	<u>(19,549)</u>	<u>(19,034)</u>
Assets and liabilities					
Property, plant and equipment	943	1,615	3,023	2,953	2,860
Other assets	25,825	32,393	36,715	63,972	7,641
Total liabilities and minority interests	<u>(1,544)</u>	<u>(968)</u>	<u>(1,891)</u>	<u>(2,121)</u>	<u>(22,275)</u>
Shareholders' funds	<u>25,224</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 2000 and 2001 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 Tuesday, 26th April 2005 at 10:00a.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 2004;
2. To re-elect retiring directors and authorise the board of directors to fix the directors' remuneration;
3. To re-appoint auditors and authorise the board of directors to fix their remuneration; and

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

4. **"THAT**
 - (a) the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (c) of this resolution) 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 in paragraph (d) of this resolution);
 - (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

Notice of Annual General Meeting

- (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company;

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

- (d) for the purpose of this resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (iii) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting.

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

5. “THAT

- (a) the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (c) of this resolution) of all powers of the Company to repurchase the shares 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;

Notice of Annual General Meeting

(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

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

By order of the Board
Chiu Yuk Ching
Secretary

Dated 30th March 2005

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

Notice of Annual General Meeting

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 nos. 2 and 5 as required by the Rules Governing the Listing of Securities on GEM will be despatched to the members of the Company.