



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

First Quarterly Report **2005**

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

FINANCIAL HIGHLIGHTS

- The Group recorded turnover of HK\$1,388,000 for the three months ended 31st March 2005, representing a decrease of 48.6% from the corresponding period of last year.
- The Group recorded OEM licensing revenue of HK\$578,000 for the three months ended 31st March 2005 as compared to HK\$2,025,000 for the corresponding period of last year.
- Packaged software sales of HK\$759,000 for the first quarter of 2005 recorded an increase of 17.4% from the corresponding period of previous year.
- The Group recorded a net loss attributable to shareholders for the three months ended 31st March 2005 of HK\$1,416,000 (first quarter of 2004: net loss attributable to shareholders of HK\$491,000).
- The Group reduced its total operating expenses in the first quarter of 2005 by 8.9% as compared to first quarter of 2004.

The unaudited consolidated results for the three months ended 31st March 2005 and the comparison with last year are set out in the accompanying table.

THREE MONTH RESULTS (UNAUDITED)

The Board of Directors (the "Directors") of Q9 Technology Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31st March 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 31st March	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	1,388	2,700
Cost of sales		(90)	(129)
Gross profit		1,298	2,571
Other revenue	2	80	4
Selling and distribution expenses		(726)	(809)
Research and development expenses		(339)	(454)
General and administrative expenses		(1,729)	(1,803)
Loss from operations		(1,416)	(491)
Taxation	3	—	—
Loss attributable to shareholders		(1,416)	(491)
		HK Cent	HK Cent
Loss per share - Basic	5	0.11	0.04

Notes:

1 Basis of preparation

The Group's unaudited condensed consolidated results 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") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). They are prepared under the historical cost convention as modified by the revaluation of short term investments.

The accounting policies adopted in preparing the Group's unaudited condensed consolidated results for the three months ended 31st March 2005 and 2004 are consistent with those followed in the preparing of the Group's annual financial statements for the year ended 31st December 2004.

2 Turnover, revenue and segment information

The Group is principally engaged in software and embedded systems development. Turnover and other revenue of the Group are as follows:

	Unaudited Three months ended 31st March	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Sale of goods	810	675
Licensing income	578	2,025
	<u>1,388</u>	<u>2,700</u>
	-----	-----
Other revenue		
Interest income	80	4
Sundry income	—	—
	<u>80</u>	<u>4</u>
	-----	-----
Total revenue	<u><u>1,468</u></u>	<u><u>2,704</u></u>

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

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

Geographical segment analysis is as follows:

	Unaudited Three months ended 31st March	
	2005 HK\$'000	2004 HK\$'000
Hong Kong	1,375	2,302
PRC	13	398
	<u>1,388</u>	<u>2,700</u>

3 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 three months ended 31st March 2005 (three months ended 31st March 2004: Nil).

At 31st March 2005, the Group has net deferred tax assets mainly arising from tax losses of approximately HK\$62,000,000 (31st December 2004: HK\$61,000,000). 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.

4 Interim dividend

The Directors do not recommend the payment of interim dividend for the three months ended 31st March 2005 (three months ended 31st March 2004: Nil).

5 Loss per share

The calculation of basic loss per share for the three months ended 31st March 2005 is based on the Group's unaudited consolidated loss attributable to shareholders of HK\$1,416,000 (three months ended 31st March 2004: HK\$491,000) and on 1,246,350,000 (three months ended 31st March 2004: 1,246,350,000) ordinary shares in issue during the periods.

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

6 Reserves

Movement of reserves of the Group are as follows:

	Share premium (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Warrants reserve (unaudited) HK\$'000	Reorganisation reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
Balance at 1st January 2004	87,601	37	6,250	3,000	(76,312)	20,576
Loss for the three months ended 31st March 2004	—	—	—	—	(491)	(491)
Balance at 31st March 2004	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(76,803)</u>	<u>20,085</u>
Balance at 1st January 2005	87,601	37	6,250	3,000	(84,128)	12,760
Loss for the three months ended 31st March 2005	—	—	—	—	(1,416)	(1,416)
Balance at 31st March 2005	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(85,544)</u>	<u>11,344</u>

BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the three months ended 31st March 2005 amounted to HK\$1,388,000, representing a decrease of 48.6% from the corresponding period of last year. OEM licensing revenue for the first quarter of 2005 amounted to HK\$578,000, representing a decrease of 71.5% from the corresponding period of last year (first quarter of 2004: HK\$2,025,000). Loss attributable to shareholders for the three months ended 31st March 2005 amounted to HK\$1,416,000 compared to HK\$491,000 for the corresponding period of last year. The loss per share was HK0.11 cent (first quarter of 2004: loss per share of HK0.04 cent).

The Group continues to focus its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes, but as some of the OEM manufacturers in PRC discontinue the adoption of Q9 CIS with their mobile phones and the market for SMS desk-top phone in Hong Kong has slowed, which together attributed to a significant portion of OEM license revenue last year, the Group experienced a significant drop in the OEM licensing revenue in the first quarter of 2005. The Group is currently looking for opportunities to diversify and expand its scope of software technology related business, as sole reliance on Q9 CIS as a revenue driver may not be sufficient to generate adequate return for the Group over the long run.

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

As at 31st March 2005, 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	Personal interests	Family interests	Number of shares held		Total	Approximate percentage of holding
			Corporate interests	Other interests		
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

(Note 1)

Note:

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

(ii) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

(a) Pre-IPO Share Option Scheme and the First Post-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 5th May 2001 which was terminated on 7th May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30th April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 31st March 2005.

As at 31st March 2005, information on share options which had been granted to Directors under the Old Share Option Schemes and which remained outstanding was as follows:

Director	Number of share options outstanding as at 31st March 2005	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 three months ended 31st March 2005.

- (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%	—

(b) **New Share Option Scheme**

No option had been granted to the Directors or the chief executives under the New Share Option Scheme for the three months ended 31st March 2005.

Save as disclosed above, as at 31st March 2005, 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 three months ended 31st March 2005, no debt securities had been issued by the Group.



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

As at 31st March 2005, 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 (31.45%) 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 March 2005, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules for the review period.

CORPORATE GOVERNANCE

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.

COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31st March 2005.

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 5.29 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. The audit committee has reviewed with management this unaudited first quarterly report.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 10th May 2005.

By order of the Board
Leung Lap Yan
Chairman

Hong Kong, 10th May 2005

As of the date of this report, the Board of the Company comprises Mr. Leung Lap Yan, Mr. Leung Lap Fu Warren, Mr. Lau Man Kin, Mr. Tam Kam Biu William, Mr. Lim Yin Cheng, Mr. Fung Siu To Clement, Mr. Lun Pui Kan, Mr. Kwan Po Lam Phileas, Mr. Wan Xiaolin and Mr. Kwan Kin Chung as Executive Directors, Mr. Ip Chi Wai, Mr. Tse Wang Cheung Angus and Mr. Woo Wei Chun Joseph as Independent Non-Executive Directors.