



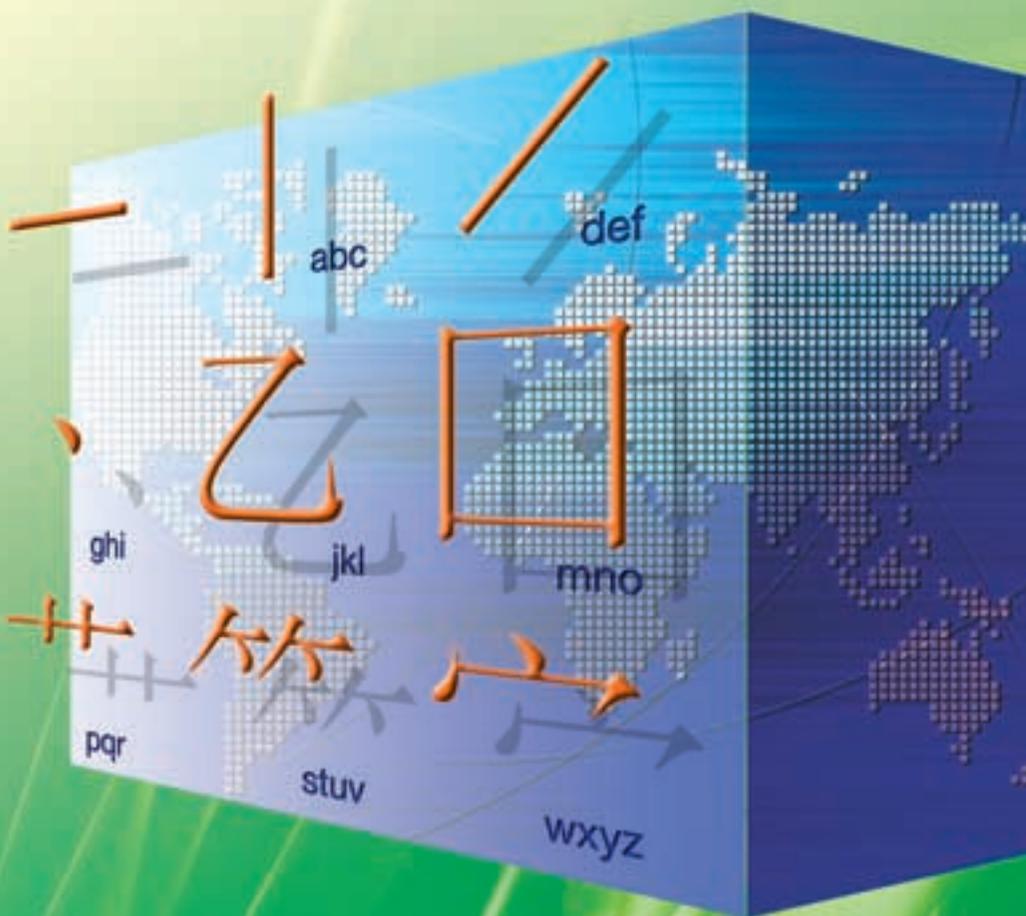
**Q9 Technology Holdings Limited**

**(九方科技控股有限公司)\***

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8129)

**First Quarterly Report 2006**



\*For identification purpose only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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\$883,000 for the three months ended 31 March 2006, representing a decrease of 36.4% from the corresponding period of last year.
- The Group recorded OEM licensing revenue of HK\$239,000 for the three months ended 31 March 2006, representing a decrease of 58.6% from the corresponding period of last year.
- Packaged software sales of HK\$594,000 for the three months ended 31 March 2006, representing a decrease of 21.7% from the corresponding period of previous year.
- The Group recorded a net loss attributable to shareholders for the three months ended 31 March 2006 of HK\$1,566,000 (first three months of 2005: net loss attributable to shareholders of HK\$1,416,000).
- The Group total operating expenses for the three months ended 31 March 2006 was reduced by 9.9% compared to first three months of 2005.

The unaudited consolidated results for the three months ended 31 March 2006 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 31 March 2006, together with the unaudited comparative figures for the corresponding period in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 31 March	
		2006 HK\$'000	2005 HK\$'000
Revenue	2	883	1,388
Cost of sales		(80)	(90)
<b>Gross profit</b>		<b>803</b>	<b>1,298</b>
Other operating income	3	148	80
Selling and distribution expenses		(627)	(726)
Research and development expenses		(299)	(339)
General and administrative expenses		(1,591)	(1,729)
<b>Operating loss</b>		<b>(1,566)</b>	<b>(1,416)</b>
Finance costs		—	—
<b>Loss before income tax</b>		<b>(1,566)</b>	<b>(1,416)</b>
Income tax expense	4	—	—
<b>Loss for the three months ended 31 March 2006</b>		<b>(1,566)</b>	<b>(1,416)</b>
<b>Loss per share</b>	6		
- Basic		(HK0.13 cent)	(HK0.11 cent)
- Diluted		N/A	N/A

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2006

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrants reserve HK\$'000	Reorganisation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	12,464	87,601	37	6,250	3,000	(84,128)	25,224
Loss for the three months ended 31 March 2005	—	—	—	—	—	(1,416)	(1,416)
At 31 March 2005	<u>12,464</u>	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(85,544)</u>	<u>23,808</u>
At 1 January 2006	12,464	87,601	37	6,250	3,000	(91,488)	17,864
Loss for the three months ended 31 March 2006	—	—	—	—	—	(1,566)	(1,566)
At 31 March 2006	<u>12,464</u>	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(93,054)</u>	<u>16,298</u>

Notes:

## 1 Basis of preparation

The Group's unaudited condensed consolidated results are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The accounting policies adopted in preparing the Group's unaudited condensed consolidated results for the three months ended 31 March 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

## 2 Revenue and segment information

The Group is principally engaged in software and embedded systems development. Revenue of the Group is as follows:

	Unaudited Three months ended 31 March	
	2006 HK\$'000	2005 HK\$'000
<b>Revenue – Turnover</b>		
Sale of goods	644	810
Licensing income	239	578
	<u>883</u>	<u>1,388</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 31 March	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	766	1,375
PRC	117	13
	<u>883</u>	<u>1,388</u>

3 Other operating income

	Unaudited Three months ended 31 March	
	2006 HK\$'000	2005 HK\$'000
Interest income	113	80
Sundry income	35	—
	<u>148</u>	<u>80</u>

#### 4 Income tax expense

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

Provision for the profits tax of subsidiaries operating outside Hong Kong has not been provided as the subsidiaries did not generate any assessable profits in the respective jurisdictions during the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

At 31 March 2006, the Group has net deferred tax assets mainly arising from tax losses of approximately HK\$67,600,000 (31 December 2005: HK\$66,600,000). 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.

#### 5 Interim dividend

The Directors do not recommend the payment of interim dividend for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

#### 6 Loss per share

The calculation of the basic loss per share is based on the Group's unaudited consolidated loss for the three months ended 31 March 2006 of HK\$1,566,000 (three months ended 31 March 2005: HK\$1,416,000) and on 1,246,350,000 (three months ended 31 March 2005: 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.

## BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the three months ended 31 March 2006 amounted to HK\$883,000, representing a decrease of 36.4% from the corresponding period of last year. OEM licensing revenue for the first three months of 2006 amounted to HK\$239,000 representing a decrease of 58.6% from the corresponding period of last year. Loss attributable to shareholders for the three months ended 31 March 2006 amounted to HK\$1,566,000 compared to a loss of HK\$1,416,000 for the corresponding period of last year. The loss per share was HK0.13 cent (first three months of 2005 : loss per share of HK0.11 cent).

The OEM licensing revenue of HK\$239,000 for the three months ended 31 March 2006, representing a decrease of 58.6% from the corresponding period of last year.

Packaged software sales of HK\$594,000 for the three months ended 31 March 2006, representing a decrease of 21.7% from the corresponding period of previous year.

Due to the unfavorable market trend in the OEM licensing business and the Packaged software business, Management intends to identify opportunities to diversify the product and service offerings of the Group in 2006.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the interests and short positions of each of the Directors and the chief executive 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 (Note 1)	Other interests		
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

Note :

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

## (ii) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

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

The Company adopted the Pre-IPO Share Option Scheme on 5 May 2001 which was terminated on 7 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 30 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 31 March 2006.

As at 31 March 2006, 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 31 March 2006	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 31 March 2006.
- (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)
18 November 2001	10%	10%
18 May 2002	10%	20%
18 November 2002	10%	20%
18 May 2003	20%	20%
18 November 2003	20%	20%
18 May 2004	20%	10%
18 November 2004	10%	—

## (b) New Share Option Scheme

No option had been granted to the Directors or the chief executive under the New Share Option Scheme for the three months ended 31 March 2006.

Save as disclosed above, as at 31 March 2006, none of the Directors or the chief executive 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 31 March 2006, no debt securities had been issued by the Group.

The Board was pleased to announce that at the Annual General Meeting held on 28 April 2006, the ordinary resolution approving cancellation of the outstanding options granted pursuant to the Old Share Option Schemes was duly passed by way of poll vote.

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

As at 31 March 2006, 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 executive) 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 (30.09%) 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 31 March 2006, 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' 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**

During the three months ended 31 March 2006, 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.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

The Company has not redeemed any of its shares during three months ended 31 March 2006. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the three months ended 31 March 2006.

## **CORPORATE GOVERNANCE**

The Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules ("Code") takes effect from 1 January 2005. The Company are committed to maintain a high standard of corporate governance. To maintain a good and solid framework of corporate governance will ensure the Company to run its business in the best interests of the shareholders. Throughout the three months ended 31 March 2006 under review, the Company has complied with the Code.

## **DIRECTOR'S SECURITIES TRANSACTIONS**

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by Directors of the Company ("Code for Director's Dealings"). The Company has made specific enquiry with Directors and all Directors have complied with the requirements set out in the Code for Director's Dealing for the three months ended 31 March 2006 under review.

## **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. 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 11 May 2006.

By order of the Board  
**Leung Lap Yan**  
Chairman

Hong Kong, 11 May 2006

*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, Dr. 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.*