

# **ANNUAL REPORT 1999-2000**



## **QIANLONG TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED**

**(Incorporated in the Cayman Islands with limited liability)**



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

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

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

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## **EXECUTIVE DIRECTORS**

Chen Shen Tien  
Fan Ping Yi  
Wang Chen Yu, Cycle  
Du Hao  
Chen Si Yuan

## **NON-EXECUTIVE DIRECTORS**

Chen Ming Chuan  
Yu Shih Pi

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Yu Chi Chen, Franklin  
Chiu Kam Hing, Kathy

## **SECRETARY**

Chan Yik Wang

## **PRINCIPAL BANKERS**

*In The People's Republic of China:*  
Industrial and Commercial Bank of China  
Bank of China, Shanghai Branch

*In Hong Kong:*  
The Hongkong and Shanghai Banking Corporation, Limited, Hongkong Office  
Shanghai Commercial Bank Ltd

## **AUDITORS**

KPMG  
8th Floor, Prince's Building  
10 Chater Road,  
Central, Hong Kong

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

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

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Central Registration Hong Kong Limited  
Shops 1712-1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **REGISTERED OFFICE**

Ugland House  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Unit 2, 27th Floor  
Lippo Centre Tower 1  
89 Queensway  
Admiralty  
Hong Kong



**GROUP RESULTS**

|                                      | <b>Year ended 31 December</b> |         |
|--------------------------------------|-------------------------------|---------|
|                                      | <b>1999</b>                   | 1998    |
|                                      | <b>RMB'000</b>                | RMB'000 |
| Turnover                             | <b>33,885</b>                 | 48,364  |
| Operating profit before taxation     | <b>13,653</b>                 | 31,973  |
| Taxation                             | <b>(1,687)</b>                | (3,530) |
| Profit after taxation                | <b>11,966</b>                 | 28,443  |
| Dividends                            | <b>28,019</b>                 | 51,054  |
| Basic earnings per share (RMB cents) | <b>7.85</b>                   | 18.96   |

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 1999.

**BASIC EARNINGS PER SHARE**

|                                | <b>Year ended 31 December</b> |       |
|--------------------------------|-------------------------------|-------|
|                                | <b>1999</b>                   | 1998  |
| Earnings per share (RMB cents) | <b>7.85</b>                   | 18.96 |

The companies comprising the Group underwent a reorganisation on 2 December 1999 to rationalise the Group's structure in preparation for the listing of the Company's shares on the GEM board of the Stock Exchange. Prior to the new issue and placing of 60,500,000 of new shares on 17 December 1999, and the capitalisation issue of 125,000,000 shares, the number of ordinary shares in issue of the Company was 25,000,000.

The calculation of earnings per share for the year 1999 is based on the consolidated profit attributable to shareholders for the year ended 31 December 1999 of RMB11,966,000 divided by the weighted average number of 152,486,301 shares, assumed to be in issue during the year. The weighted average number of shares is calculated based on the proforma 150,000,000 shares in issue and issuable, comprising 25,000,000 shares in issue immediately before the new issue and placing on 17 December 1999 and 125,000,000 shares issued pursuant to the capitalisation issue, and the total number of shares of 210,500,000 in issue as at 31 December 1999.

The calculation of earnings per share for the year 1998 is based on the combined profit attributable to shareholders for the year ended 31 December 1998 of RMB28,443,000 divided by the proforma 150,000,000 shares in issue and issuable immediately before the new issue and placing of the Company's shares on 17 December 1999.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 1999 and 1998.

## TURNOVER BREAKDOWN BY PRODUCT CATALOGUE (1998-1999)

|                     | 1999          |            | 1998          |            |
|---------------------|---------------|------------|---------------|------------|
|                     | RMB'000       | %          | RMB'000       | %          |
| Network Version     | 2,701         | 8          | 7,972         | 16         |
| Stand-alone Version | 7,777         | 23         | 18,678        | 39         |
| Maintenance Fee     | 23,407        | 69         | 21,714        | 45         |
|                     | <u>33,885</u> | <u>100</u> | <u>48,364</u> | <u>100</u> |

## GROUP RESULTS - ASSETS AND LIABILITIES (1998-1999)

|                             | 1999          | 1998          |
|-----------------------------|---------------|---------------|
|                             | RMB'000       | RMB'000       |
| Fixed Assets                | 9,127         | 9,454         |
| Other non-current assets    | 1,600         | 2,400         |
|                             | <u>10,727</u> | <u>11,854</u> |
| Current Assets              |               |               |
| Inventory                   | 649           | 611           |
| Trade and other receivables | 5,492         | 26,398        |
| Cash and bank balances      | 92,600        | 26,811        |
|                             | <u>98,741</u> | <u>53,820</u> |
| Current Liabilities         |               |               |
| Trade and other payables    | 23,142        | 15,765        |
| Taxation                    | 327           | 806           |
| Dividends payable           | 67            | —             |
|                             | <u>23,536</u> | <u>16,571</u> |
| Net Current Assets          | <u>75,205</u> | <u>37,249</u> |
| Net Assets                  | <u>85,932</u> | <u>49,103</u> |
| Share capital               | 22,420        | —             |
| Reserves                    | 63,512        | 49,103        |
|                             | <u>85,932</u> | <u>49,103</u> |



## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present this first annual report of Qianlong Technology International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 1999.

### **BACKGROUND**

1999 was an exciting and an eventful year for the Company with the successful listing of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Qianlong Technology International Holdings Limited (Qianlong), has a successful business in the PRC since 1994 and carved a reputation as the leading securities analysis software and provides the most reliable IT solution to the investors in the region.

The rise of the information age has created many business opportunities for the IT industry. In this ever changing technological climate, Qianlong has kept abreast of market trends and latest technology. Our business has grown based on our solid customer base accumulated over the years. Reflecting the confidence of its shareholders, Qianlong continues to exhibit excellent performance, providing a stable profit contribution to its shareholders.

Qianlong enjoys a unique position within the industry in the PRC supported by its technological expertise. We will continue to apply our digital information computing experience to other IT areas and thereby cater more efficiently to the needs of investors public in the PRC.

### **BUSINESS REVIEW**

During 1999, the Group achieved a number of milestones. One of the major milestones was the Company's successful listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 17 December 1999.

Whilst many companies have been suffering from the economic downturn brought about by the Asian financial turmoil in 1997, the Group's business has also encountered a slowdown. For the year ended 31 December 1999, the Group's pro-forma combined turnover and net profit attributable to shareholders were RMB33.9 million and RMB12.0 million respectively.

Despite the slow down in revenues and profits, the Group is still able to maintain a sound and healthy financial position, as well as the leading position in the securities analysis software section the PRC.

The overall objective of the Group is to become a market leader in the provision of digital information computing solution in the PRC. To meet the goal of strengthening its position as a market leader in the securities analysis software sector, the Group will initiate different strategy to implement its business objectives.





### PROSPECTS

With the renowned brand name, solid business base in the PRC through years of efforts, and strengthened financial position with the listing of shares of the Company, the Group in the coming years aims at becoming a market leader in the provision of digital computing solution in the PRC by pursuing opportunities in other areas, such as internet and e-commerce applications:

To meet this goal, the Group plans to adopt the following steps in the near future;

- continue to upgrade the existing products in the securities analysis software segment, including upgrade Windows 95 Version in the first half of 2000;
- introduce new product, Magic Box in March 2000;
- set up a research and development center in Taiwan to develop Magic Box Project and other new products;
- implement the project of Qianlong Tian Di, a network of outlets across the PRC, so as to enhance after-sale service, strengthen sales network as well as provide training session to end-users; and
- seek opportunities of investing in potential companies in the PRC, Taiwan and Hong Kong engaged in the fields of IT industry, internet, and e-commerce.

### USE OF PROCEEDS OF SHARE OFFER

On 17 December 1999, the Company raised net proceeds of HK\$49.6 million through the initial public offering of the shares of the Company. The proceeds had not substantively been used up to 31 December 1999, except for a very small amount for the implementation of the business plan as stated in the Prospectus. Cash and bank balance of the Group as at 31 December 1999 were RMB92.6 million equivalent, representing the unused proceeds of the initial public offering and funds generated from the Group's operation.

### AUDIT COMMITTEE

The Group has established an audit committee in 1999. The committee in the year under review has made its duties to review and supervise the financial reporting process and internal control system of the Group, and to provide advice and comments to the board of directors of the Company.







# Chairman's Statement

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## APPRECIATION

On behalf of the Board, I wish to thank the management and staff for their dedication and contribution during the year.

**Chen Shen Tien**  
*Chairman*

Hong Kong  
20 March 2000



## EXECUTIVE DIRECTORS

**Mr. Chen Shen Tien**, aged 42, is the chairman of the Group. He is responsible for the Group's overall strategic planning and the relationship development of potential business opportunities. Mr. Chen has over 5 years experience in the IT industry.

**Mr. Fan Ping Yi**, aged 41, is the vice chairman of the Group. He is one of the founders of the Group. He is responsible for the Group's overall strategic planning and its implementation. Mr. Fan has over 15 years of experience in the IT industry. Before joining the Group, Mr. Fan held senior management position in various software houses in Taiwan.

**Mr. Wang Chen Yu, Cycle**, aged 41, is the managing director of the Group. He joined the Group in January 1995 and is responsible for the marketing, business development, and management of the Group's business in the PRC. He hold a bachelor's degree in mathematics from Shoochow University in the ROC. Mr. Wang has over 15 years of experience in the IT industry. Before joining the Group, Mr. Wang held senior management positions in various computer companies in Taiwan, Germany and the PRC.

**Mr. Due Hao**, aged 31, is the director and deputy general manager of the Group and is responsible for product research and development and general administration of the Group. He joined the Group in 1993 and has over 6 years of product research and development experience. He hold a master of science degree in electronic engineering from Fudan University.

**Mr. Chen Si Yuan**, aged 37, is the director and head of research and development department, and is responsible for product research and development of the Group. He joined the group in 1994 and has over 5 years of product research and development experience. He holds a master degree in electronic engineering from Fudan University.

## NON-EXECUTIVE DIRECTORS

**Mr. Chen Ming Chuan**, aged 35, is the vice-president of research and development department in Willing of Taiwan. Mr. Chen has engaged in the IT industry over 15 years with intensive experience in development of securities analysis software.

**Mr. Yu Shih Pi**, aged 37, is the vice-president of Willing and the chairman of All Can Technology Co., Ltd in Taiwan. Mr. Yu held senior management positions in various computer companies before joining the Group.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Yu Chi Chen, Franklin**, aged 53, is currently the president of Information Corporation in Taiwan. Mr. Yu is a Certified Public Accountant under the American Institute of Certified Public Accountants. Before joining the Group, Mr. Yu held various senior positions in the newspaper industry in the USA and Taiwan.

**Ms. Chiu Kam Hing, Kathy**, aged 51, has over 29 years of banking experience in Canada and Asia Pacific region. Ms. Chiu was senior vice president at the Republic National Bank of New York and was responsible for the management and investment of third party clients' funds. Ms. Chiu also serves as member to the board of trustees of the Lord Wilson Heritage Committee, ex-officer of the Brewin Trust Fund Committee and Gratham Scholarships Fund Committee. Ms. Chiu has honors awarded for Justice of Peace.

## SENIOR MANAGEMENT

**Mr. Chen Wei Ping**, aged 42, is the manager of administration department responsible for the general administration of the Group. He joined the Group in 1994 and has 6 years of experience in general administration.

**Mr. Zhao Bing**, aged 34, is the manager of sales and marketing management department responsible for sales and marketing planning of the Group. He joined the group in 1994 and has over 2 years of experience in sales and marketing planning. He holds a master degree in marketing management.

**Ms. Ma Li Juan**, aged 35, is the manager of accounting department of the Group. She joined the Group in 1994 and has over 8 years of experience in accounting. She holds an associate degree from the Shanghai Institute of Textile Industry.

**Ms. Yang Ren Ru**, aged 31, is the manager of human resources department of the Group responsible for human resources management of the Group. She joined the Group in 1994 and has over 5 years of experience in human resources management. She holds a bachelor's degree in Wireless Technology from the Shanghai University.



## Company's Achievements and Market Potential

### **NETWORK VERSION**

In 1999, the Group's sale of Network Version recorded a decrease of 66.3% from RMB8.0 million in 1998 to RMB2.7 million, primarily due to the stagnant stock market turnover and sentiment in 1999, which led to a decrease in new branches of securities and investment related companies. Nevertheless, the Group still sold 131 sets to new users in 1999. The Group Network Version, Millennium Winner will be targeting securities and investment related companies. The success of such products will be dependent upon the activities of PRC's securities and investment related companies.

### **THE MAGIC BOX PROJECT**

The Magic Box Project was started in the fourth quarter of 1998 to target the massive information consumer market in the PRC by an integration of software, hardware and a host of other peripherals. During 1999, the Group has recruited two additional professionals to join the Group for the Project and prepared to set up a research centre in Taiwan. The initial product under the Magic Box Project is the Intelligent Box I, which can be connected with a cable or wireless networked television to provide investors with analytical tools, will be launched around the end of March 2000.

### **WINDOWS VERSION**

To access to the growing users in Windows operating system in the PRC, the Group is prepared to introduce the Windows 95 version named as Forever Winner and is available in Stand-alone Version. The Forever Winner is expected to introduce to the market around second quarter of 2000.

### **WINDOWS CE VERSION**

To target the potential users in mobile computing devices like palm-top and sub-notebooks, the Group will introduce the securities analysis software which could operate on Windows CE platform in the second half of 2000.

### **STAND-ALONE VERSION**

The Stand-alone Version sales recorded a decline of 58.4% due to the adverse stock market sentiment in the PRC and the price-led competition from other competitors. Despite the decrease in sales turnover, the quantity sold for Stand-alone Version increased moderately. The total number of set sold reached 67,917 sets in 1999, compared with 67,612 sets sold in 1998.



# C

## ompany's Achievements and Market Potential

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### **MAINTENANCE FEE**

Despite the decrease in turnover from the sales of the Network Version and the Stand-alone Version, the Group recorded a 7.8% increase in maintenance fee primarily attributable to the accumulated users of Network Version base. The total number of Network Version users reached 2,700 in 1999, representing an increase of 5.1%, as compared with 2,569 users in 1998.

# B

## usiness Objectives Comparison

During the financial year of 1999, the business progress of the Group was generally in line with the information as provided in the section headed "Statement of Business Objectives" in the Prospectus dated 7 December 1999 (the "Prospectus"). The details of the business progress of the Group are categorized as follows:

### **SALES AND MARKETING**

One of the Group's plans is to establish its own channels to achieve effective maintenance and value added services as well as motivate the existing agents to promote the Group's products.

The Group has started project Qianlong Tian Di by formulating the project structure, evaluating and reviewing feasibility study since the fourth quarter of 1999. The Directors believe that the synergy of Qianlong Tian Di will be more effective at the second half of 2000 after the total number of retail outlets over 10 stores.

During the fourth quarter of 1999, the Group identified only one location for the retail outlet of Qianlong Tian Di to be opened in March 2000. The first retail outlet is located in Shanghai and is considered to be closer to target customers within the business centre of software end-users as well as headquarter of the Company for obtaining the latest market responses from the end-users.

The total cost incurred for the opening of the retail outlet was approximately RMB250,000, funded by the listing proceeds. As stated in the Prospectus, the Directors' estimated that two retail outlets would be opened in the second half of 1999 and would cost about RMB797,000. The Company has not opened the second outlet according to the schedule due to the following reasons:

- 1) the Directors had reviewed a number of potential locations but only one ideal site was located; and
- 2) the Directors would like to gain some market responses and experiences before opening the second outlet.

# B

## usiness Objectives Comparison

### DEPLOYMENT OF HUMAN RESOURCES

During the second half of 1999, the Group recruited 16 staff for the expansion plan of the Group in Hong Kong, Shanghai and Taipei office, which comprises 4 staff in sales and marketing, 2 professional staff in maintenance service and technical support, 4 staff in finance and administrative and 6 research and development engineer. For the year ended 31 December 1999, the Group has a total of 60 staff which comprise 14 staff for sales and marketing, 14 staff in maintenance service, 17 staff in finance and administration department and 15 staff for research and development. The difference in the number of retail outlets between the original plan and the actual result is the main reason for the difference as stated in the Prospectus except the headcount increase in research and development due to the Group's strategy to strengthen the capability in changing technology. The following table illustrates the breakdown of total headcount of the Group at 31 December 1999:

|                                           | <b>Planned Staff<br/>level for<br/>31/12/1999</b> | <b>Actual staff<br/>as at<br/>31/12/1999</b> | <b>Actual staff<br/>as at<br/>30/6/1999<br/>(as stated<br/>in the<br/>Prospectus)</b> |
|-------------------------------------------|---------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------|
| Sales and marketing                       | 16                                                | 14                                           | 10                                                                                    |
| Maintenance service and technical support | 22                                                | 14                                           | 12                                                                                    |
| Finance and administrative                | 19                                                | 17                                           | 13                                                                                    |
| Research and development                  | 11                                                | 15                                           | 9                                                                                     |
| Total                                     | 68                                                | 60                                           | 44                                                                                    |

### PRODUCT DEVELOPMENT

The Group's product development strategy in providing solutions to the investing public is to continuously use computer software as one of the media to deliver analyzed stock information. To implement this strategy, the Group will constantly introduce upgrade versions and new application software based on various media.

The Group has made a full scale launch for the Millennium Winner in the last quarter of 1999 with intensive promotion on the various newspapers and magazines. As a result, the Group sold 37 sets during the second half year of 1999 for the newly developed product.

In relation to the development of Intelligent Box series, Windows 95 and Windows CE version, the Company is continuously running the advanced test program and is gathering the market responses before the full launch of such products in different stages as stated in the Prospectus.

# B

## Business Objectives Comparison

### RESEARCH AND DEVELOPMENT

The objective of the Group's research and development is to develop upgrade versions for DOS system and initiate new Windows version and Magic Box Project. The implementation of the objective will be carried out in 2000 and 2001 except Magic Box Project is already in an advanced stage for the initial product named Intelligent Box I.

During the second half of 1999, the securities analysis software product development team was ahead of schedule as stated in the Prospectus and recruited 4 additional engineers to strengthen the research of securities analysis software. An upgrade version for Stand-alone Version and Windows 95 version were completed in the final stage of testing and will be launched to market in the near future.

The Group has recruited 2 research professionals for the Magic Box Project in the last quarter of 1999. To fulfill the objectives of research and development of the Company stated in the Prospectus, the Group has prepared to set up a research center in Taipei and part of the initial costs incurred in respect of the above implementation are approximately RMB300,000, being funded by the listing proceeds.



# R

## eport of the Directors

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 1999.

### GROUP REORGANISATION

The Company was incorporated with limited liability under the Companies Law (Revised) of the Cayman Islands on 6 May 1998. Pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the listing of the shares of the Company on the Growth Enterprise Market (the "GEM board") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the subsidiaries listed in note 12 on the accounts and became the holding company of the Group on 2 December 1999. Further details of the Group reorganisation are set out in note 17 on the accounts. The Group has been treated as a continuing entity and accordingly, the accompanying consolidated accounts have been presented on the basis set out in Note 1(c) on the accounts.

The shares of the Company were listed on the GEM board on 17 December 1999.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the development and trading of computer software and provision of the related maintenance services.

All of the Group's operations during the year were carried out in the People's Republic of China (the "PRC"). The analysis of the principal activities of the Group during the financial year is as follows:

|                             | <b>Group<br/>turnover<br/>RMB'000</b> | <b>Contribution<br/>to profit from<br/>operations<br/>RMB'000</b> |
|-----------------------------|---------------------------------------|-------------------------------------------------------------------|
| <b>Principal activities</b> |                                       |                                                                   |
| Sale of computer software   | 10,478                                | 5,971                                                             |
| Maintenance service fees    | 23,407                                | 14,073                                                            |
|                             | <u>33,885</u>                         | <u>20,044</u>                                                     |
| Other income                |                                       | 3,141                                                             |
| Other expenses              |                                       | (9,532)                                                           |
|                             |                                       | <u>13,653</u>                                                     |

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the financial year is as follows:

|                                     | Percentage of the<br>group's total |           |
|-------------------------------------|------------------------------------|-----------|
|                                     | Sales                              | Purchases |
| The largest customer                | 4%                                 |           |
| Five largest customers in aggregate | 12%                                |           |
| The largest supplier                |                                    | 26%       |
| Five largest suppliers in aggregate |                                    | 73%       |

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### ACCOUNTS

The profit of the Group for the year ended 31 December 1999 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 22 to 44.

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 1999. The dividends in the consolidated profit and loss account and consolidated balance sheet represent the dividends paid/payable by the subsidiaries to their then owners prior to the Group's reorganisation on 2 December 1999.

### CHARITABLE DONATIONS

Donations made by the Group during the year amounted to RMB230,000 (1998: RMB200,000).

### FIXED ASSETS

Movements in fixed assets of the Group and the Company during the year are set out in Note 11 on the accounts.

### SHARE CAPITAL

Details of the movement in share capital of the Company during the year are set out in Note 17 on the accounts.

### SHARE OPTION SCHEME

Pursuant to a written resolution passed on 2 December 1999, a share option scheme for employees to purchase ordinary shares in the Company was approved. Details of the share option scheme are set out in Note 17(f) on the accounts. No option was granted under the share option scheme during the financial year.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Note 18 on the accounts.

### DIRECTORS

The directors during the financial year were:

#### *Executive directors*

Chen Shen Tien, Chairman (*appointed on 6 May 1998*)

Fan Ping Yi, Vice Chairman (*appointed on 6 May 1998*)

Wang Chen Yu, Cycle, Managing Director (*appointed on 8 October 1999*)

Du Hao (*appointed on 8 October 1999*)

Chen Si Yuan (*appointed on 8 October 1999*)

Yang Ching Shou (*appointed on 6 May 1998 and resigned on 30 September 1999*)

Shaun Denton (*appointed on 6 May 1998 and resigned on 6 May 1998*)

#### *Non-executive directors*

Chen Ming Chuan (*appointed on 6 May 1998*)

Yu Shih Pi (*appointed on 6 May 1998*)

#### *Independent non-executive directors*

Yu Chi Chen (*appointed on 8 October 1999*)

Wang Chao Chin (*appointed on 8 October 1999 and resigned on 2 December 1999*)

Chiu Kam Hing, Kathy (*appointed on 2 December 1999*)

In accordance with Article 116 of the Company's Articles of Association, Mr. Chen Shen Tien, Mr. Fan Ping Yi and Mr. Yu Shih Pi retire by rotation and, being eligible, offer themselves for re-election.

### DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Chen Shen Tien, Fan Ping Yi, Wang Chen Yi, Cycle, Du Hao and Chen Si Yuan has entered into a service contract with the Company for a term of two years commencing on 1 October 1999, and will continue thereafter until terminated by not less than three months' notice in writing by either party to the other.

Except for the above, none of the directors proposed for re-election at the forthcoming annual general meeting have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

### DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 December 1999 had the following interests in the issued share capital of the Company at that date as recorded in the register of directors' share interests:

|                        | Ordinary shares of HK\$0.10 each |                  |                     |        |
|------------------------|----------------------------------|------------------|---------------------|--------|
|                        | Personal Interests               | Family Interests | Corporate Interests |        |
| Mr Wang Chen Yu, Cycle | 3,750,000                        | —                | —                   |        |
| Mr Du Hao              | 1,875,000                        | —                | —                   |        |
| Mr Chen Si Yuan        | 1,875,000                        | —                | —                   |        |
| Mr Chen Shen Tien      | —                                | —                | 122,500,000         | (Note) |
| Mr Fan Ping Yi         | —                                | —                | 122,500,000         | (Note) |
| Mr Yu Shih Pi          | —                                | —                | 122,500,000         | (Note) |
| Mr Chen Ming Chuan     | —                                | —                | 122,500,000         | (Note) |

*Note:* At 31 December 1999, Messrs. Chen Shen Tien, Fan Ping Yi, Yu Shih Pi and Chen Ming Chuan were substantial shareholders of Willing System Corporation which beneficially held 122,500,000 shares representing 58.19% interest in the Company.

Apart from the foregoing, none of the directors held office at 31 December 1999 or their associates had any personal, family, corporate or other beneficial interests in the issued share capital of the Company, any of its holding companies or any of their subsidiaries (within the meaning of the Securities (Disclosure of Interest) Ordinance) at that date.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 2 December 1999, the board of directors may at their absolute discretion, grant options to employees and executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 17 December 1999. No options were granted to any directors or employees under the Scheme during the year ended 31 December 1999.

Apart from the foregoing, and other than in connection with the Group reorganisation in preparation for the Company's initial public offering, at no time during the year or up to the date of this report was the Company, any of its holding companies or any of their subsidiaries a party to any arrangements to enable the Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 1999 amounting to 10 per cent or more of the ordinary shares in issue:

|                                   | Number of<br>Ordinary shares held | Percentage of<br>total issued shares |                 |
|-----------------------------------|-----------------------------------|--------------------------------------|-----------------|
| Willing System Corporation        | 122,500,000                       | 58.19%                               | <i>(Note a)</i> |
| Qianlong Technology Incorporation | 122,500,000                       | 58.19%                               |                 |
| Mr Chen Shen Tien                 | 122,500,000                       | 58.19%                               | <i>(Note b)</i> |
| Mr Fan Ping Yi                    | 122,500,000                       | 58.19%                               | <i>(Note b)</i> |
| Mr Yang Ching Shou                | 122,500,000                       | 58.19%                               | <i>(Note b)</i> |
| Mr Yu Shih Pi                     | 122,500,000                       | 58.19%                               | <i>(Note b)</i> |
| Mr Chen Ming Chuan                | 122,500,000                       | 58.19%                               | <i>(Note b)</i> |

*Note a:* The 122,500,000 shares held by Willing System Corporation were included in the above mentioned number of shares held by Qianlong Technology Incorporation.

*Note b:* Each of the 122,500,000 shares held by Messrs. Chen Shen Tien, Fan Ping Yi, Yang Ching Shou, Yu Shih Pi and Chen Ming Chuan were included in the above mentioned number of shares held by Willing System Corporation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Pursuant to an agreement dated 22 September 1999 made between the Company and the Company's ultimate holding company, Willing System Corporation, the ultimate holding company agreed to assign its service mark registered in the Republic of China ("ROC") with remaining registration period expiring November 2007 to the Company for a nominal consideration of US\$1. On 23 September 1999 the Company entered into another agreement with the ultimate holding company pursuant to which the Company licensed the use of the service mark in the ROC exclusively to the ultimate holding company for a nominal consideration of US\$1 for a period from September 1999 to November 2007.

Messrs. Chen Shen Tien, Fan Ping Yi, Yang Ching Shou, Yu Shih Pi and Chen Ming Chuan are interested in these contracts as shareholders of the ultimate holding company. Apart from the foregoing, no contract of significance to which the Company, any of its holding companies or any of their subsidiaries was a party, 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.

### **RETIREMENT SCHEMES**

Details of retirement schemes of the Group and the Company during the year are set out in Note 20(a) on the accounts.

### **COMPLIANCE WITH THE GEM LISTING RULES**

The Company has complied with the GEM Listing Rules as set out by The Stock Exchange since the shares of the Company were listed on the GEM board operated by the Stock Exchange on 17 December 1999.

### **YEAR 2000 ISSUE**

The Company and the Group has not encountered any disruptions to business operations due to Year 2000 issue.

### **AUDITORS**

KPMG were first appointed as auditors of the Company on 20 March 2000.

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board  
**Chen Shen Tien**  
*Chairman*

Hong Kong, 20 March 2000

# R

## eport of the Auditors

Auditors' report to the shareholders of  
Qianlong Technology International Holdings Limited  
(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 22 to 44 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 accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 20 March 2000

## C

## onsolidated Profit and Loss Account

for the year ended 31 December 1999  
(Expressed in Renminbi)

|                                                 | Note | 1999<br>RMB'000   | 1998<br>RMB'000 |
|-------------------------------------------------|------|-------------------|-----------------|
| Turnover                                        | 2    | <b>33,885</b>     | 48,364          |
| Cost of sales                                   |      | <b>(13,841)</b>   | (15,458)        |
|                                                 |      | <b>20,044</b>     | 32,906          |
| Other revenue                                   | 3    | <b>3,141</b>      | 5,270           |
| Distribution costs                              |      | <b>(1,660)</b>    | (1,225)         |
| Administrative expenses                         |      | <b>(7,642)</b>    | (4,753)         |
| Other operating expenses                        |      | <b>(230)</b>      | (225)           |
| Profit from ordinary activities before taxation | 4    | <b>13,653</b>     | 31,973          |
| Taxation                                        | 5(a) | <b>(1,687)</b>    | (3,530)         |
| Profit attributable to shareholders             | 8    | <b>11,966</b>     | 28,443          |
| Dividends                                       | 9    | <b>(28,019)</b>   | (51,054)        |
| Earnings per share - basic                      | 10   | <b>7.85 cents</b> | 18.96 cents     |

All of the profit for the year is retained by the Company and its subsidiaries.

No separate statement of recognised gains and losses has been prepared as the profit attributable to shareholders during the year would be the only component of this statement.

The notes on pages 26 to 44 form part of these accounts.





## Consolidated Balance Sheet

at 31 December 1999  
(Expressed in Renminbi)

|                             | Note  | 1999          |                      | 1998          |               |
|-----------------------------|-------|---------------|----------------------|---------------|---------------|
|                             |       | RMB'000       | RMB'000              | RMB'000       | RMB'000       |
| Non-current assets          |       |               |                      |               |               |
| Fixed assets                | 11(a) |               | <b>9,127</b>         |               | 9,454         |
| Other non-current asset     | 13    |               | <b>1,600</b>         |               | 2,400         |
|                             |       |               | <u>10,727</u>        |               | <u>11,854</u> |
| Current assets              |       |               |                      |               |               |
| Inventories                 | 14    | <b>649</b>    |                      | 611           |               |
| Prepaid tax                 | 5(b)  | <b>1,725</b>  |                      | 1,632         |               |
| Trade and other receivables | 15    | <b>3,767</b>  |                      | 24,766        |               |
| Cash and bank balances      |       | <b>92,600</b> |                      | 26,811        |               |
|                             |       | <u>98,741</u> |                      | <u>53,820</u> |               |
| Current liabilities         |       |               |                      |               |               |
| Trade and other payables    | 16    | <b>23,142</b> |                      | 15,765        |               |
| Tax payable                 | 5(b)  | <b>327</b>    |                      | 806           |               |
| Dividends payable           | 9     | <b>67</b>     |                      | —             |               |
|                             |       | <u>23,536</u> |                      | <u>16,571</u> |               |
| Net current assets          |       |               | <u><b>75,205</b></u> |               | <u>37,249</u> |
| Net assets                  |       |               | <u><b>85,932</b></u> |               | <u>49,103</u> |
| Capital and reserves        |       |               |                      |               |               |
| Share capital               | 17    |               | <b>22,420</b>        |               | 26,427        |
| Reserves                    | 18(a) |               | <b>63,512</b>        |               | 22,676        |
|                             |       |               | <u><b>85,932</b></u> |               | <u>49,103</u> |

Approved by the board of directors on 20 March 2000

**Chen Shen Tien**  
Chairman

**Fan Ping Yi**  
Vice Chairman

The notes on page 26 to 44 form part of these accounts.



# B alance Sheet

at 31 December 1999  
(Expressed in Renminbi)

|                             | Note  | RMB'000       | RMB'000              |
|-----------------------------|-------|---------------|----------------------|
| Non-current assets          |       |               |                      |
| Fixed assets                | 11(b) |               | 119                  |
| Investment in subsidiaries  | 12    |               | <u>2,663</u>         |
|                             |       |               | 2,782                |
| Current assets              |       |               |                      |
| Trade and other receivables | 15    | 1,141         |                      |
| Cash and bank balances      |       | <u>79,289</u> |                      |
|                             |       | <u>80,430</u> |                      |
| Current liabilities         |       |               |                      |
| Trade and other payables    | 16    | 6,508         |                      |
| Amounts due to subsidiaries |       | <u>21,774</u> |                      |
|                             |       | <u>28,282</u> |                      |
| Net current assets          |       |               | <u>52,148</u>        |
| Net assets                  |       |               | <u><u>54,930</u></u> |
| Capital and reserves        |       |               |                      |
| Share capital               | 17    |               | 22,420               |
| Reserves                    | 18(b) |               | <u>32,510</u>        |
|                             |       |               | <u><u>54,930</u></u> |

Note:

The Company was incorporated on 6 May 1998, and did not carry out any business during the period from the date of its incorporation up to 31 December 1998. The only items appearing on the Company's balance sheet as at 31 December 1998 were share capital of RMB2 and amounts due from shareholders of RMB2.

Approved by the board of directors on 20 March 2000

**Chen Shen Tien**  
Chairman

**Fan Ping Yi**  
Vice Chairman

The notes on page 26 to 44 form part of these accounts.



# C

## onsolidated Cash Flow Statement

for the year ended 31 December 1999  
(Expressed in Renminbi)

|                                                                          | Note  | 1999<br>RMB'000      | 1998<br>RMB'000 |
|--------------------------------------------------------------------------|-------|----------------------|-----------------|
| Net cash inflow from operating activities                                | 19(a) | <u>42,675</u>        | <u>33,730</u>   |
| Returns on investments and servicing of finance                          |       |                      |                 |
| Interest received                                                        |       | 1,471                | 1,472           |
| Dividends paid                                                           |       | <u>(27,952)</u>      | <u>(51,054)</u> |
| Net cash outflow from returns on investments<br>and servicing of finance |       | <u>(26,481)</u>      | <u>(49,582)</u> |
| Taxation                                                                 |       |                      |                 |
| PRC tax paid                                                             |       | <u>(2,259)</u>       | <u>(4,065)</u>  |
| Investing activities                                                     |       |                      |                 |
| Payment for purchase of fixed assets                                     |       | <u>(1,028)</u>       | <u>(5,762)</u>  |
| Net cash inflow / (outflow) before financing                             |       | <b>12,907</b>        | (25,679)        |
| Financing                                                                |       |                      |                 |
| Proceeds from issuance of new<br>shares of the Company                   | 19(c) | <b>52,882</b>        | —               |
| Additional paid up capital made prior to the Group's<br>reorganisation   |       | —                    | <u>828</u>      |
| Increase / (decrease) in cash and cash equivalents                       |       | <b>65,789</b>        | (24,851)        |
| Cash and cash equivalents at 1 January                                   |       | <u>26,811</u>        | <u>51,662</u>   |
| Cash and cash equivalents at 31 December                                 |       | <u><b>92,600</b></u> | <u>26,811</u>   |
| Analysis of the balances of cash and cash equivalents                    |       |                      |                 |
| Cash at bank and in hand                                                 |       | <u><b>92,600</b></u> | <u>26,811</u>   |

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) *Statement of compliance*

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the disclosure provisions of the Hong Kong Securities (Stock Exchange Listing) Rules. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) *Basis of preparation of the accounts*

The measurement basis used in the preparation of the accounts is historical cost.

### (c) *Basis of consolidation*

The Company was incorporated in the Cayman Islands on 6 May 1998 under Companies Law (Revised) of the Cayman Islands and through a reorganisation became the holding company of the Group on 2 December 1999. The Group has been treated as a continuing entity and accordingly the consolidated accounts have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 2 December 1999. Accordingly, the consolidated results of the Group for the years ended 31 December 1998 and 1999 include the results of the Company and its subsidiaries with effect from 1 January 1998 or since their respective dates of incorporation, where this is a shorter period. The consolidated balance sheet at 31 December 1998 is a combination of the balance sheets of the subsidiaries of the Company as at 31 December 1998. The net difference between the value recorded for the shares issued and the nominal value of the issued share capital received in exchange is transferred to the merger reserve. In the opinion of the directors, the resulting consolidated accounts give a more meaningful view of the results and state of the affairs of the Group as a whole.

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December each year. All material intercompany transactions are eliminated on consolidation.

### (d) *Investment in subsidiaries*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investment in subsidiaries in the Company's balance sheet is stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account of the Company.

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

### (f) Depreciation

#### (i) Buildings

Buildings are depreciated on a straight line basis over the shorter of the remaining terms of the leases and the estimated useful lives of 20 years.

#### (ii) Other fixed assets

All other fixed assets are depreciated on a straight line basis over their estimated useful lives as follows:

|                                          |                                                          |
|------------------------------------------|----------------------------------------------------------|
| Leasehold improvements                   | Over the shorter of the remaining lease term and 5 years |
| Computer equipment                       | 5 years                                                  |
| Furniture, fixtures and office equipment | 5 years                                                  |
| Motor vehicles                           | 5 years                                                  |

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

#### (i) Sale of goods

Revenue arising from sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

#### (ii) Maintenance service fee income

Maintenance service fees are billed in advance and are recognised as income on a straight line basis over the period of the provision of the related services. The unrecognised portion is recorded as deferred revenue in the balance sheet.

#### (iii) Interest income

Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

### (h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

### (j) *Translation of foreign currencies*

The Company's and the Group's operating subsidiaries' financial records are maintained and the financial information set out in these accounts are stated in Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates ruling at the balance sheet date. Differences on foreign currency translations are dealt with in the profit and loss account.

The results of the Group's other subsidiaries are translated into RMB at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

### (k) *Operating leases*

Rental payable under operating leases is accounted for on a straight line basis over the periods of the respective leases.

### (l) *Research and development costs*

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as an expense in the period in which they are incurred.

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Retirement cost

Employees of the Group are either members of life insurance policies managed by an insurance company or a central pension scheme operated by local government. The Group pays the premiums of the life insurance policies on behalf of the employees and makes contributions to the central pension scheme according to the requirements set by local government. The premiums and contributions are charged to profit and loss account when they fall due.

### (n) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## 2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are the development and trading of computer software and provision of the related maintenance services.

Turnover represents the sales value of goods supplied to customers and the maintenance service fees receivable, net of goods returned, trade discounts and value added tax. The Group's products and services are sold and provided to customers in the People's Republic of China ("PRC"). The amount of each significant category of revenue recognised in turnover during the year is as follows:

|                           | <b>1999</b>    | 1998    |
|---------------------------|----------------|---------|
|                           | <b>RMB'000</b> | RMB'000 |
| Sale of computer software | <b>10,478</b>  | 26,650  |
| Maintenance service fees  | <b>23,407</b>  | 21,714  |
|                           | <b>33,885</b>  | 48,364  |



# N

## otes on the accounts

(Expressed in Renminbi)

### 3 OTHER REVENUE

|                                   | <b>1999</b>         | 1998         |
|-----------------------------------|---------------------|--------------|
|                                   | <b>RMB'000</b>      | RMB'000      |
| Value added tax refund            | <b>1,329</b>        | 3,001        |
| Interest income                   | <b>1,471</b>        | 1,472        |
| Tax rebates from local government | <b>270</b>          | 725          |
| Miscellaneous                     | <b>71</b>           | 72           |
|                                   | <b><u>3,141</u></b> | <u>5,270</u> |

With effect from 1 January 1994, the PRC government promulgated a value added tax ("VAT") system which replaced the old sales tax system applicable to the Group's PRC subsidiaries. Under the VAT regulations, the Group's PRC subsidiaries are subject to VAT which is calculated at the rate of 17% on the invoiced value of sales ("output VAT"). Output VAT is borne by customers in addition to the invoiced value of sales. VAT paid by the Group on its purchases ("input VAT") is recoverable out of output VAT collected from its customers on its sales.

Under a PRC State Tax Bureau Notice, Guo Shui Fa [1994] No. 115 issued on 21 April 1994, a foreign investment enterprise registered with the State Administration of Industry and Commerce before 1 January 1994 will be entitled to claim back the excess VAT paid over the old sales tax otherwise payable over a five-year period from 1 January 1994 to 31 December 1998. As one of the Group's PRC subsidiaries was registered with the State Administration of Industry and Commerce before 1 January 1994, the subsidiary was entitled to the concession up to 1998. Thereafter, the subsidiary is not entitled to any VAT concessions. A VAT refund is only applicable to excess VAT paid at the stage when goods are sold or services are provided in the PRC. The amount claimed is credited to the profit and loss account on an accrual basis. The amount of VAT refund recognised as income during the year ended 31 December 1999 relates to the deferred revenue recognised in 1999.

(Expressed in Renminbi)

#### 4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging

|                                                                              | <b>1999</b>    | 1998         |
|------------------------------------------------------------------------------|----------------|--------------|
|                                                                              | <b>RMB'000</b> | RMB'000      |
| Cost of inventories                                                          | <b>2,331</b>   | 3,645        |
| Staff costs (including retirement costs of RMB608,000<br>(1998: RMB328,000)) | <b>3,402</b>   | 2,487        |
| Maintenance service expenses                                                 | <b>9,334</b>   | 9,296        |
| Research and development costs                                               | <b>912</b>     | 1,062        |
| Depreciation                                                                 | <b>1,355</b>   | 810          |
| Operating lease charges - properties                                         | <b>911</b>     | 800          |
| Auditors' remuneration                                                       | <b>618</b>     | 17           |
|                                                                              | <b>=====</b>   | <b>=====</b> |

#### 5 TAXATION

- (a) No provision for Hong Kong Profits Tax has been made for the year or the preceding year on the Group's profit as the Group does not carry on a trade or business in Hong Kong and is not subject to Hong Kong Profits Tax. The Group's profits are derived mainly from the Group's operating subsidiaries in the PRC.

The provision for PRC taxation is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year. There was no material unprovided deferred taxation during the year or the preceding year.

Shanghai Qianlong Advanced Technology Company Limited ("Shanghai Qianlong"), a subsidiary operating in the PRC, was exempted from income tax for two years from the first profitable year of operation (1996 and 1997) and is eligible for and entitled to a 50% tax exemption for the next three years (1998 to 2000). The applicable reduced income tax rate for the period from 1998 to 2000 is 13.5%.

Ningbo Qianlong Computer Software Company Limited ("Ningbo Qianlong"), a subsidiary operating in the PRC, has obtained approval for an effective tax rate of 11% for 1998 and 1999 on the basis of its technologically advanced enterprise status.

- (b) Prepaid tax represents Foreign Enterprise Income Tax ("FEIT") paid by a PRC subsidiary in respect of the deferred revenue, which will be charged to the profit and loss account when the deferred revenue is recognised as income.

Tax payable represents FEIT payable by the PRC subsidiaries based on their PRC statutory accounts.

# N

## otes on the accounts

(Expressed in Renminbi)

### 6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

|                                                | <b>1999</b>     | 1998            |
|------------------------------------------------|-----------------|-----------------|
|                                                | <b>RMB'000</b>  | RMB'000         |
| Total remuneration                             |                 |                 |
| - basic salary, allowances, and other benefits | <b>1,688</b>    | 803             |
| - discretionary bonus                          | <b>120</b>      | 90              |
| - pension fund                                 | <b>86</b>       | 64              |
|                                                | <b>1,894</b>    | 957             |
|                                                | <u><u>8</u></u> | <u><u>8</u></u> |

Directors' remuneration disclosed pursuant to section 18.29 of the GEM Listing Rules is as follows:

|                                     | <b>1999</b>     | 1998            |
|-------------------------------------|-----------------|-----------------|
|                                     | <b>RMB'000</b>  | RMB'000         |
| Executive directors                 | <b>464</b>      | 120             |
|                                     | <b>418</b>      | 202             |
|                                     | <b>304</b>      | 203             |
|                                     | <b>150</b>      | 72              |
|                                     | <b>150</b>      | 72              |
|                                     | <b>108</b>      | 144             |
| Non-executive directors             | <b>102</b>      | 72              |
|                                     | <b>102</b>      | 72              |
| Independent non-executive directors | <b>48</b>       | —               |
|                                     | <b>48</b>       | —               |
|                                     | <b>1,894</b>    | 957             |
|                                     | <u><u>8</u></u> | <u><u>8</u></u> |

(Expressed in Renminbi)

## 6 DIRECTORS' REMUNERATION (Continued)

Each of Messrs. Chen Shen Tien, Fan Ping Yi, Wang Chen Yi, Cycle, Du Hao and Chen Si Yuan has entered into a service contract with the Company for a term of two years commencing on 1 October 1999. Based on the terms of these service contracts, each of the directors are entitled to a monthly salary, an annual bonus payable on 31 December in each year, which is equivalent to the average of one month's salary earned in the previous twelve months, and a gratuitous year end bonus in respect of any financial year of an amount based on a predetermined percentage of the audited consolidated profits after taxation (including deduction of any bonus so paid) and minority interest.

Each of Messrs. Chen Shen Tien, Fan Ping Yi, Wang Chen Yi, Cycle, Du Hao and Chen Si Yuan has agreed to waive the right to receive the annual bonus and gratuitous year end bonus in respect of the year ended 31 December 1999.

There were no amounts paid during the relevant period to former directors in connection with their retirement from employment with the Group.

## 7 SENIOR MANAGEMENT REMUNERATION

Of the five individuals with the highest emoluments, three (1998:three) are directors whose emoluments are disclosed in note 6 above. The aggregate of the emoluments in respect of the other two (1998:two) individuals are as follows:

|                                                | <b>1999</b>       | 1998       |
|------------------------------------------------|-------------------|------------|
|                                                | <b>RMB'000</b>    | RMB'000    |
| Total remuneration                             |                   |            |
| - basic salary, allowances, and other benefits | <b>343</b>        | 255        |
| - discretionary bonus                          | <b>62</b>         | 30         |
| - pension fund                                 | <b>86</b>         | 28         |
|                                                | <u><b>491</b></u> | <u>313</u> |

Both of the two individuals' emoluments are within the band of nil to RMB1,000,000.

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a loss of RMB614,000 (1998: Nil) which has been dealt with in the accounts of the Company.

*(Expressed in Renminbi)*

## 9. DIVIDENDS

Dividends in the consolidated profit and loss account and consolidated balance sheet represent dividends paid/payable by the subsidiaries to their then owners prior to the Group's reorganisation on 2 December 1999.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not applicable for the subsidiaries declaring the dividend, which have no issued shares.

## 10. EARNINGS PER SHARE

The companies comprising the Group underwent a reorganisation on 2 December 1999 to rationalise the Group's structure in preparation for the listing of the Company's shares on the GEM board of the Stock Exchange. Prior to the new issue and placing of 60,500,000 of new shares on 17 December 1999, and the capitalisation issue of 125,000,000 shares, the number of ordinary shares in issue of the Company was 25,000,000.

The calculation of earnings per share for the year 1999 is based on the consolidated profit attributable to shareholders for the year ended 31 December 1999 of RMB11,966,000 divided by the weighted average number of 152,486,301 shares, assumed to be in issue during the year. The weighted average number of shares is calculated based on the proforma 150,000,000 shares in issue and issuable, comprising 25,000,000 shares in issue immediately before the new issue and placing on 17 December 1999 and 125,000,000 shares issued pursuant to the capitalisation issue, and the total number of shares of 210,500,000 in issue as at 31 December 1999.

The calculation of earnings per share for the year 1998 is based on the combined profit attributable to shareholders for the year ended 31 December 1998 of RMB28,443,000 divided by the proforma 150,000,000 shares in issue and issuable immediately before the new issue and placing of the Company's shares on 17 December 1999.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 1999 and 1998.

(Expressed in Renminbi)

### 11. FIXED ASSETS

(a) Group

|                                 | Buildings  | Leasehold<br>improvements | Computer<br>equipment | Furniture,<br>fixtures &<br>office<br>equipment | Motor<br>vehicles | Total         |
|---------------------------------|------------|---------------------------|-----------------------|-------------------------------------------------|-------------------|---------------|
|                                 | RMB'000    | RMB'000                   | RMB'000               | RMB'000                                         | RMB'000           | RMB'000       |
| <b>Cost</b>                     |            |                           |                       |                                                 |                   |               |
| At 1 January 1999               | 780        | 5,820                     | 1,443                 | 1,803                                           | 1,522             | 11,368        |
| Additions                       | —          | 40                        | 448                   | 215                                             | 325               | 1,028         |
| At 31 December 1999             | <u>780</u> | <u>5,860</u>              | <u>1,891</u>          | <u>2,018</u>                                    | <u>1,847</u>      | <u>12,396</u> |
| <b>Accumulated depreciation</b> |            |                           |                       |                                                 |                   |               |
| At 1 January 1999               | 108        | 495                       | 626                   | 435                                             | 250               | 1,914         |
| Charge for the year             | 35         | 446                       | 243                   | 323                                             | 308               | 1,355         |
| At 31 December 1999             | <u>143</u> | <u>941</u>                | <u>869</u>            | <u>758</u>                                      | <u>558</u>        | <u>3,269</u>  |
| <b>Net book value</b>           |            |                           |                       |                                                 |                   |               |
| At 31 December 1999             | <u>637</u> | <u>4,919</u>              | <u>1,022</u>          | <u>1,260</u>                                    | <u>1,289</u>      | <u>9,127</u>  |
| At 31 December 1998             | <u>672</u> | <u>5,325</u>              | <u>817</u>            | <u>1,368</u>                                    | <u>1,272</u>      | <u>9,454</u>  |

(b) Company

|                                                      | Computer<br>equipment | Furniture,<br>fixtures &<br>office<br>equipment | Total      |
|------------------------------------------------------|-----------------------|-------------------------------------------------|------------|
|                                                      | RMB'000               | RMB'000                                         | RMB'000    |
| <b>Cost</b>                                          |                       |                                                 |            |
| Additions during the year and<br>at 31 December 1999 | <u>40</u>             | <u>79</u>                                       | <u>119</u> |

All additions of the Company were acquired in December 1999 and no depreciation has been charged during the year.

(Expressed in Renminbi)

## 12. INVESTMENT IN SUBSIDIARIES

|                          | <b>Company<br/>1999</b> |
|--------------------------|-------------------------|
|                          | RMB'000                 |
| Unlisted shares, at cost | 2,663                   |

Details of the subsidiaries at 31 December 1999 are as follows. The class of shares held is ordinary unless otherwise stated.

| Name of company                                       | Place and form of incorporation and operation                    | Attributable equity interest % |          | Issued/ registered capital | Principal activities                                                                           |
|-------------------------------------------------------|------------------------------------------------------------------|--------------------------------|----------|----------------------------|------------------------------------------------------------------------------------------------|
|                                                       |                                                                  | Direct                         | Indirect |                            |                                                                                                |
| Qianlong Computers Company Limited                    | The British Virgin Islands (limited company)                     | 100                            | —        | US\$10,000                 | Investment holding                                                                             |
| Ningbo Qianlong Computer Software Company Limited     | The People's Republic of China (wholly foreign-owned enterprise) | —                              | 100      | US\$210,000                | Development and trading of computer software and provision of the related maintenance services |
| Shanghai Qianlong Advanced Technology Company Limited | The People's Republic of China (wholly foreign-owned enterprise) | —                              | 100      | US\$3,000,000              | Development and trading of computer software and provision of the related maintenance services |

## 13. OTHER NON-CURRENT ASSET

The Group has entered into an operating lease agreement in respect of commercial properties in the PRC with a term of 30 years commencing on 31 December 1997. The rent has been fixed at RMB800,000 per annum throughout the whole lease period and the Group has made a prepayment of RMB4,000,000 which represents five years' rent, commencing from 31 December 1997. The portion relating to the year from 1 January 2000 to 31 December 2000 has been included in prepayments, deposits and other receivables under current assets and the other non-current asset stated above relates to rental prepayment for the period from 1 January 2001 to 31 December 2002 (1998: from 1 January 2000 to 31 December 2002).

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## otes on the accounts

(Expressed in Renminbi)

### 14. INVENTORIES

|                                           | Group           |                 |
|-------------------------------------------|-----------------|-----------------|
|                                           | 1999<br>RMB'000 | 1998<br>RMB'000 |
| <b>Inventories comprise the following</b> |                 |                 |
| Raw materials                             | 537             | 227             |
| Work in progress                          | —               | 73              |
| Finished goods                            | 112             | 311             |
|                                           | <u>649</u>      | <u>611</u>      |

All of the above inventories are stated at cost.

### 15. TRADE AND OTHER RECEIVABLES

|                                                | Group           |                 | Company         |
|------------------------------------------------|-----------------|-----------------|-----------------|
|                                                | 1999<br>RMB'000 | 1998<br>RMB'000 | 1999<br>RMB'000 |
| Accounts receivable                            | 897             | 838             | —               |
| Prepayments, deposits and<br>other receivables | 2,870           | 23,928          | 1,141           |
|                                                | <u>3,767</u>    | <u>24,766</u>   | <u>1,141</u>    |

All the trade and other receivables are expected to be recovered within one year.

### 16. TRADE AND OTHER PAYABLES

|                              | Group           |                 | Company         |
|------------------------------|-----------------|-----------------|-----------------|
|                              | 1999<br>RMB'000 | 1998<br>RMB'000 | 1999<br>RMB'000 |
| Accounts payable             | 797             | 691             | —               |
| Other creditors and accruals | 8,620           | 1,768           | 6,508           |
| Deferred revenue             | 13,725          | 13,306          | —               |
|                              | <u>23,142</u>   | <u>15,765</u>   | <u>6,508</u>    |

Included in other creditors and accruals is an amount of RMB5,003,000 due to majority shareholders of the Company for advancement of listing expenses.



(Expressed in Renminbi)

## 16. TRADE AND OTHER PAYABLES (Continued)

Deferred revenue represents maintenance service fees received in advance and the 1998 figure included the related VAT refundable in accordance with Grandfather rule (see note 3).

All the trade and other payables are expected to be settled within one year.

## 17. SHARE CAPITAL

|                                                           | 1999                 |                | 1998          |         |
|-----------------------------------------------------------|----------------------|----------------|---------------|---------|
|                                                           | No. of shares        | RMB'000        | No. of shares | RMB'000 |
| <b>Authorised:</b>                                        |                      |                |               |         |
| Ordinary shares of HK\$0.10 each<br>(1998: HK\$1.00 each) | <b>1,000,000,000</b> | <b>106,510</b> | 385,000       | 410     |
| <b>Issued and fully paid:</b>                             |                      |                |               |         |
| At 1 January                                              | 2                    | —              | —             | —       |
| Shares arisen from share split                            | 18                   | —              | —             | —       |
| New shares issued                                         | 85,499,980           | 9,106          | 2             | —       |
| Capitalisation issue                                      | 125,000,000          | 13,314         | —             | —       |
| Combined issued<br>capital/paid-up capital                | —                    | —              | —             | 26,427  |
| At 31 December                                            | <b>210,500,000</b>   | <b>22,420</b>  | 2             | 26,427  |

All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

- (a) The 1998 comparative amounts represent the combined issued share capital and paid-up capital of the companies comprising the Group as at 31 December 1998 on the basis set out in note 1(c).
- (b) The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company on 6 May 1998. As at the date of incorporation of the Company, its initial authorised share capital was 385,000 shares of HK\$1.00 each of which 2 subscriber shares were issued and allotted.
- (c) On 2 December 1999, written resolutions of the sole shareholder of the Company were passed pursuant to which, inter alia:
  - (i) each of the then existing shares of HK\$1.00 each in the share capital of the Company was sub-divided into 10 shares of HK\$0.10 each; and
  - (ii) the authorised share capital of the Company was increased from HK\$385,000 to HK\$100,000,000 by the creation of additional 996,150,000 new shares.

(Expressed in Renminbi)

## 17. SHARE CAPITAL (Continued)

- (d) On 2 December 1999, resolutions of the sole shareholder of the Company were passed pursuant to which, inter alia:
- (i) the Directors were authorised to allot and issue a total of 24,999,980 shares credited as fully paid to Qianlong Technology Incorporation, Messrs. Wang Chen Yu, Cycle, Du Hao and Chen Si Yuan and to credit as fully paid at par the two subscriber shares of HK\$1.00 each in the Company in exchange and as consideration for the acquisition by the Company of the entire share capital of Qianlong Computers Company Limited which comprises 10,000 shares of US\$1 each; and
- (ii) conditional on the share premium account of the Company being credited as a result of the Offer as defined below, the directors were authorised to capitalise the sum of HK\$12,500,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 125,000,000 shares for allotment and issue to holders of shares whose names appear on the register of members of the Company at the close of business on 2 December 1999 in proportion to their then respective shareholdings in the Company.
- (e) On 17 December 1999, further 60,500,000 new shares of HK\$0.10 each were issued and offered for subscription at a price of HK\$1.06 per share upon the listing of the Company's shares on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited. The Group raised approximately RMB52.9 million net of related expenses from the issue.
- (f) *Share option scheme*

Pursuant to a written resolution passed on 2 December 1999, a share option scheme for employees was approved and the directors may, at their discretion, invite any employee or director of the Group, to take up options to subscribe for shares of the Company.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal amount 20 per cent of the share capital of the Company in issue immediately following completion of the offer.

During the year, no option was granted to the directors or chief executive of the Company or any of its subsidiaries under the share option scheme.

(Expressed in Renminbi)

## 18. RESERVES

|                                           | Share<br>premium<br>(Note i)<br>RMB'000 | General<br>reserve<br>(Note ii)<br>RMB'000 | Enterprise<br>expansion<br>fund<br>(Note iii)<br>RMB'000 | Retained<br>earnings<br>(Note iv)<br>RMB'000      | Merger<br>reserve<br>RMB'000                           | Total<br>RMB'000         |
|-------------------------------------------|-----------------------------------------|--------------------------------------------|----------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|--------------------------|
| <i>(a) Group</i>                          |                                         |                                            |                                                          |                                                   |                                                        |                          |
| At 1 January 1998                         | —                                       | 1,746                                      | 1,509                                                    | 42,032                                            | —                                                      | 45,287                   |
| Transfer between reserves                 | —                                       | 3,816                                      | 32                                                       | (3,848)                                           | —                                                      | —                        |
| Profit for the year                       | —                                       | —                                          | —                                                        | 28,443                                            | —                                                      | 28,443                   |
| Dividend                                  | —                                       | —                                          | —                                                        | (51,054)                                          | —                                                      | (51,054)                 |
| At 31 December 1998<br>and 1 January 1999 | —                                       | 5,562                                      | 1,541                                                    | 15,573                                            | —                                                      | 22,676                   |
| Premium on issue of<br>shares             | 61,861                                  | —                                          | —                                                        | —                                                 | —                                                      | 61,861                   |
| Share issue expenses                      | (15,423)                                | —                                          | —                                                        | —                                                 | —                                                      | (15,423)                 |
| Capitalisation issue                      | (13,314)                                | —                                          | —                                                        | —                                                 | —                                                      | (13,314)                 |
| Surplus on merger                         | —                                       | —                                          | —                                                        | —                                                 | 23,765                                                 | 23,765                   |
| Profit for the year                       | —                                       | —                                          | —                                                        | 11,966                                            | —                                                      | 11,966                   |
| Transfer between reserves                 | —                                       | 191                                        | —                                                        | (191)                                             | —                                                      | —                        |
| Dividends                                 | —                                       | —                                          | —                                                        | (28,019)                                          | —                                                      | (28,019)                 |
| At 31 December 1999                       | 33,124                                  | 5,753                                      | 1,541                                                    | (671)                                             | 23,765                                                 | 63,512                   |
|                                           |                                         |                                            |                                                          | <b>Share<br/>premium<br/>(Note i)<br/>RMB'000</b> | <b>Retained<br/>earnings<br/>(Note iv)<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
| <i>(b) Company</i>                        |                                         |                                            |                                                          |                                                   |                                                        |                          |
| At 1 January 1999                         | —                                       | —                                          | —                                                        | —                                                 | —                                                      | —                        |
| Premium on issue of shares                | —                                       | —                                          | 61,861                                                   | —                                                 | —                                                      | 61,861                   |
| Share issue expenses                      | —                                       | —                                          | (15,423)                                                 | —                                                 | —                                                      | (15,423)                 |
| Capitalisation issue                      | —                                       | —                                          | (13,314)                                                 | —                                                 | —                                                      | (13,314)                 |
| Loss for the year                         | —                                       | —                                          | —                                                        | —                                                 | (614)                                                  | (614)                    |
| At 31 December 1999                       | —                                       | —                                          | 33,124                                                   | —                                                 | (614)                                                  | 32,510                   |

(Expressed in Renminbi)

**18. RESERVES** (Continued)

(i) Share premium

The application of the share premium account is governed by Section 148(a) of the Company's Articles of Association and the Cayman Islands Companies Law (Revised).

(ii) General reserve

According to the relevant rules and regulations in the PRC, each of the Group's PRC subsidiaries shall provide 10% of the annual net income after tax, based on the subsidiary's PRC statutory accounts, as a general reserve, until the balance reaches 50% of the respective subsidiary's registered capital. Further appropriations can be made at the directors' discretion.

The general reserve can be used to set off any accumulated losses or converted into paid-up capital of the respective subsidiary.

(iii) Enterprise expansion fund

Enterprise expansion fund has been set up by a PRC subsidiary and the amount allocated to this fund is at management's discretion. Allocations of 0.2% of the subsidiary's net income after tax, based on the subsidiary's PRC statutory accounts was made for the year ended 31 December 1998. No allocation has been made for the year ended 31 December 1999.

Enterprise expansion fund can be used to convert into paid-up capital, to acquire fixed assets and for general working capital purpose of the subsidiary.

(iv) Retained earnings

The Company has no retained earnings available for distribution to its shareholders at 31 December 1999 and 1998.

*(Expressed in Renminbi)***19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

- (a) Reconciliation of profit from ordinary activities before taxation to net cash inflow from operating activities

|                                                 | <b>1999</b>          | 1998                 |
|-------------------------------------------------|----------------------|----------------------|
|                                                 | <b>RMB'000</b>       | RMB'000              |
| Profit from ordinary activities before taxation | <b>13,653</b>        | 31,973               |
| Interest income                                 | <b>(1,471)</b>       | (1,472)              |
| Depreciation                                    | <b>1,355</b>         | 810                  |
| Loss on disposal of fixed assets                | <b>—</b>             | 74                   |
| Decrease in other non-current asset             | <b>800</b>           | 800                  |
| (Increase)/decrease in inventories              | <b>(38)</b>          | 309                  |
| Decrease in trade and other receivables         | <b>20,999</b>        | 1,349                |
| Increase/(decrease) in trade and other payables | <b>7,377</b>         | (113)                |
|                                                 | <b><u>42,675</u></b> | <b><u>33,730</u></b> |

- (b) Major non-cash transactions

In preparation for the listing of the Company's shares, on 2 December 1999, the Company issued 24,999,980 shares at HK\$0.10 each and credited as fully paid at par the two subscriber shares of HK\$1.00 each in the Company, which approximately equals to RMB2,662,000, in exchange and as consideration for the acquisition by the Company of the entire issued share capital of Qianlong Computers Company Limited.

- (c) Analysis of changes in financing during the year

|                                                                 | <b>Share capital</b>       |
|-----------------------------------------------------------------|----------------------------|
|                                                                 | <b>(including premium)</b> |
|                                                                 | RMB'000                    |
| At 1 January 1999                                               | —                          |
| Cash flows from financing                                       | 52,882                     |
| Shares issued in exchange of shares<br>in a subsidiary (note b) | <u>2,662</u>               |
| At 31 December 1999                                             | <b><u>55,544</u></b>       |

(Expressed in Renminbi)

## 20 COMMITMENTS

### (a) Retirement schemes

The employees of Ningbo Qianlong are members of a life insurance policy managed by an insurance company. The subsidiary is required to pay premiums of the life insurance policy on behalf of the employees at approximately 25% of their monthly salaries.

The employees of Ningbo Qianlong's Shanghai branch and Shanghai Qianlong are members of a central pension scheme operated by the local government and the subsidiaries are required to contribute approximately 25.5% of the employees' monthly salaries to the central pension scheme to fund the employees' retirement benefits.

The subsidiaries does not have any contingent liabilities to the retirement benefits of the employees other than the monthly payments to the life insurance policy and contributions to the central pension scheme.

### (b) At 31 December 1999, the Group and the Company had commitments under operating leases to make payments in the next year as follows:

|                                                | <b>1999</b>       | 1998              |
|------------------------------------------------|-------------------|-------------------|
|                                                | <b>Properties</b> | Properties        |
|                                                | <b>RMB'000</b>    | RMB'000           |
| Lease expiring after 1 year but within 5 years | <b>499</b>        | —                 |
|                                                | <u>          </u> | <u>          </u> |

## 21 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 1999 to be Willing System Corporation, which is incorporated in the Republic of China.

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## otice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Shareholders of Qianlong Technology International Holdings Limited ("the Company") will be held at Salon 2, Ball room, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on 6 May 2000 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company for the year ended 31 December 1999.
2. To approve the payment of a final dividend for the year ended 31 December 1999, if any.
3. To re-elect directors and to authorise the board of directors to fix the directors' remuneration.
4. To re-appoint auditors and authorise the board of directors to fix their remuneration.
5. By way of special business, to consider and, if thought fit, pass with or without alterations, the following resolutions as ordinary resolutions:

(1) **THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which 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 (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant or exercise of any option under the share option scheme of the Company; or (iii) 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 memorandum and articles of association of the Company in force from time to time; or (iv) any issue of

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## otice of Annual General Meeting

shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:

- (aa) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
- (bb) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution).

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing 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 memorandum and articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).”



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## otice of Annual General Meeting

(2) **THAT**

- (a) the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to purchase its Shares on the Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission. The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent, of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the date of the passing 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 memorandum and articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

- (3) **THAT** the Directors of the Company be and they are hereby authorized to exercise the authority referred to in paragraph (a) of Resolution no.3(1) above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.

By Order of the Board  
**Chan Yik Wang**  
*Company Secretary*

Hong Kong, 21 March 2000



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## otice of Annual General Meeting

*Registered Office*

The Offices of Maples and Calder  
Attorneys-at-law  
Ugland House,  
P.O. Box 209,  
George Town, Grand Cayman,  
Cayman Islands,  
British West Indies

*Head Office and principal place of business:*

Room 2702, Lippo Centre Tower I,  
89 Queensway, Admiralty,  
Hong Kong

*Notes:—*

- (a) A shareholder entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (b) To be valid, a form of proxy and 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 with the Company's branch registrar and transfer office in Hong Kong, Central Registration Hong Kong Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.
- (c) In relation to proposed resolutions nos.3 and 4 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorize the allotment and issue of shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.