



Qianlong Technology International Holdings Limited

乾隆科技國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2000

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

HIGHLIGHTS

- Turnover increased by 58.3% to approximately RMB24.9 million
- Net profit attributable to shareholders down by 27.8% to approximately RMB4.3 million
- Basic earnings per share of RMB2.06 cents

INTERIM RESULTS

The Board of Directors (the "Board") of Qianlong Technology International Holdings Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months and three months ended 30 June 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

	Note	Six Months Ended 30 June		Three Months ended 30 June	
		2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
GROUP RESULTS					
Turnover	1	24,900	15,731	12,976	8,788
Profit before taxation		5,518	6,841	2,807	3,936
Taxation	2	(1,172)	(820)	(594)	(404)
Profit after taxation		4,346	6,021	2,213	3,532
Dividends	3	0	20,982	0	13,519
Earnings per share (RMB cents)	4	2.06	4.01	1.05	2.35

NOTES:

BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 6 May 1998 under the Companies Law (Revised) of the Cayman Islands and through a re-organization became the holding company of the Group on 2 December 1999. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 17 December 1999. The Group has been treated as a continuing entity and accordingly the results of the Group for the periods ended 30 June 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. In the opinion of the directors, the resulting results give a more meaningful view of the results of the Group as a whole.

1) Turnover

The principal activities of the Company and the Group are the development, production and distribution of computer software, the provision of the related maintenance services, and investment in companies engaged in IT, internet, and e-commerce fields.

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 recognized in turnover during the respective period is as follows:

	Six Months Ended 30 June		Three Months Ended 30 June	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Sale of computer software	12,093	4,739	6,586	3,277
Maintenance service fees	12,791	10,992	6,374	5,511
Others	16	—	16	—
	<u>24,900</u>	<u>15,731</u>	<u>12,976</u>	<u>8,788</u>

2) *Taxation*

	Six Months Ended 30 June		Three Months Ended 30 June	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Hong Kong	0	0	0	0
PRC	1,172	820	594	404
	<u>1,172</u>	<u>820</u>	<u>594</u>	<u>404</u>

No provision for Hong Kong profits tax has been provided during the periods as the Group has not carried on a trade or business in Hong Kong and is not subject to Hong Kong Profits Tax. The Group's profit is 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 purpose at the rate applicable to each period.

Shanghai Qianlong was exempted from income tax for two years (1996 and 1997) from the first profitable year of operation and is eligible for and entitled to a 50% tax reduction for the next three years (1998 to 2000). The applicable reduced tax rate on income tax for the period from 1998 to 2000 is 13.5%.

Ningbo Qianlong has obtained approval for an effective tax rate of 11% for 1998 on the basis of its technologically advanced enterprise status. Given the same status, the company's applicable income tax rate for the period from 1999 to 2000 will be 11%.

3) *Dividends*

Dividends for the six months ended 30 June 1999 were RMB20,982,000, that represented dividends paid 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.

The directors do not declare any dividends for the six months ended 30 June 2000.

4) *Earnings per share*

	Six Months Ended 30 June		Three Months Ended June 30	
	2000	1999	2000	1999
Earnings per share (RMB cents)	2.06	4.01	1.05	2.35

The companies comprising the Group underwent a reorganization on 2 December 1999 to rationalize 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 capitalization issue of 125,000,000 shares, the number of ordinary shares in issue of the Company was 25,000,000.

The calculation of the basic earnings per share for the six months and three months ended 30 June 1999 is based on the profits attributable to shareholders of RMB6,021,000 and RMB3,532,000 respectively divided by the total number of 150,000,000 shares in issue and issuable immediately before the new issue and placing of the Company's shares on 17 December 1999.

The calculation of the basic earnings per share for six months and three months ended 30 June 2000 is based on the profits attributable to shareholders of RMB4,346,000 and RMB2,213,000 divided by the 210,500,000 shares, the weighted average number of shares for each of the two periods.

There were no dilutive potential ordinary shares in issue during the periods ended 30 June 2000 and 1999.

BUSINESS REVIEW

The Group has shown a strong sales growth for the first six months in 2000 attributed to the bullish stock market of the PRC since the beginning of the year 2000, and the introduction of a new product, Magic Box I in March 2000. For the six months ended 30 June 2000, the Group's turnover was RMB24.9 million, representing a 58.3% increase over the same period of the previous year.

On the other side, the selling prices of securities analysis software have been in a downtrend since the third quarter of 1999 as a result of mounting competition. Also, the Group's general and administration expenditures increased in the first half of 2000 due to the Company's listing status. At the same time, advertisement expenses increased for promotion of Intelligent Box I and other new products, and personnel expenses increased as a result of personnel expansion. In addition, Worry-Free Consulting (Shanghai) Limited ("Worry-Free"), a wholly owned subsidiary of the Group, was established to carry out the project "Qianlong Tian Di", which is still at an initial stage with formal operation started from May 2000. The Group recorded a consolidated profit of RMB4.3 million for the first half year of 2000, a 27.8% drop as compared with that for the same period of the previous year.

In respect of turnover in the second quarter of 2000, the Group recorded an increase of 47.7% as compared to the same period of 1999 attributed by the strong sales of Intelligent Box I and the stable growth of maintenance fee from securities house. However, the net profit attributable to shareholders dropped by 37.3% in the second quarter of 2000 which is a result of combination of price competition of software, lower gross margin of Intelligent Box, and the increase in expenditures on promotion and headcount aspects.

GROUP'S ACHIEVEMENTS AND MARKET POTENTIAL

Network Version

A majority of the Group's Network Version business is derived from the new branches opening of securities house across the PRC. In the first half year of 2000, the Group sold 107 sets of Network Version to new users, sales amount increased by 92% over the sales amount of the same period of 1999.

Stand-alone Version

Due to the market sentiment recovery of the stock market in the PRC, the Group sold 102,800 sets of Stand-alone Version in the first half year of 2000. Compared to the same period of the previous year, the Group enjoyed 117% growth in sales amount, and the sales quantity for the first half year of 2000 equivalents to 150% of total sales quantity for the whole year of 1999.

The Magic Box Project

After one and a half years' research and development, the Group launched the first product of the Magic Box Project, named the Intelligent Box I, in mid-March of 2000 to the market of the PRC. The Group generated total revenue of RMB3.0 million on sale of the Intelligent Box I in the first half year of 2000.

Maintenance Fee

Maintenance fee has remained stable and remains the major revenue contributor to the Group. The Group recorded a total revenue of RMB12.8 million of maintenance fee in the first six months of 2000, representing 16% growth over that of the same period of 1999 and primarily attributable to the accumulated users of Network Version base. The total number of Network Version users reached approximately 2,800 as at 30 June 2000.

PROSPECTS

The Group expects to achieve continuous sales growth in the coming year, as the customer base of Network Version is solid and expanding with stable revenue in form of maintenance fee to the Group, and the intelligent Box I is expected to bring substantial sales growth to the Group.

The Group is aimed at becoming a market leader in the provision of digital computing solution in the PRC. To meet this goal, the Group will take the following steps:

- continue to upgrade the existing products in the securities analysis software segment.
- continue to implement the Magic Box Project, develop the Intelligent Box II, and develop other new products with the assistance of the research and development center in Taiwan
- continue to implement Qianlong Tian Di project, strengthen incentive for the existing sales agents and demonstrate extensive network across the PRC with the Group's brand mark so as to enhance after-sale service, strengthen sales network, and upgrade the Group's brand image, and eventually establish a software distribution network throughout the PRC.
- 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.

BUSINESS OBJECTIVE COMPARISON

The detail of the business progress of the Group with comparison of the "Statement of Business Objective" in the Prospectus dated 7 December 1999 (the "Prospectus") is as follow:

Sales and Marketing

The Group continues to carry out its plan to establish its own channels to provide 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 since the fourth quarter of 1999 through Worry-Free and target for carrying out the plan of Qianlong Tian Di by establishing retail outlets to build up a software distribution network in the PRC for the Group's products as well as other software products. The first retail outlet located at Hongqiao, Shanghai was opened on 29 March 2000, and formal operation of Worry-Free started in May 2000 .

The Directors have assessed the recent market intelligence and reviewed the initial performance of Qianlong Tien Di, then decided to formulate the strategy that set up a distribution channel by establishment of both own retail outlets and franchise distributors to increase accessibility for potential clients. The Group will save time and cost by adopting such strategy and promptly response to market demand as and when necessary.

The Group has signed franchised agreements with 15 existing sale agents of the Group in Shanghai as at 30 June 2000 and provides those franchised agents with the standard operational principle of "Qianlong Tian Di", including technical and after-sale services assistance, co-brand name and incentive programs. The franchised agents who joined the project primarily provide services to individual end-users while the Group's own outlets mainly serve corporate users for both the Group's products and other famous software.

The Group plans to evaluate the existing sale agents in Zhejiang and Jiangsu Provinces and enter into franchised agreements with qualified sales agents in the second half of 2000. Furthermore, Worry-Free will keep on setting up retail outlets in Shanghai or other major cities in the second half of 2000. Currently, the Group is cautiously choosing ideal locations and negotiating with co-operative software producers.

The Group is aiming to set up a software distribution network through Worry-Free and the franchised sale agents across the PRC not only to strengthen the service and promote its own products, but also to provide services/training for other software.

The total fund spent by Worry-Free was approximately RMB 4.2 million up to 30 June 2000, including operating expenses of RMB1.5 million, fixed assets/decoration/equipment of RMB1.6 million, and RMB1.1 million for working capital, funded by the listing proceeds.

Deployment of Human Resources

During the first half year of 2000, the Group recruited 43 staff for the expansion plan of the Group in Hong Kong, Shanghai and Taipei office, which comprise 18 staff in sales and marketing, 9 professional staff in maintenance service and technical support, 14 staff in finance and administrative and 2 research and development engineers. The business progress of deployment in human resource in the first six months of 2000 was adjusted upon the newly adopted strategy. The staff in maintenance service and technical support division increased by only 9 professionals due to the set up of franchised distributors that saved much headcount and manpower cost while departments of sales & marketing, finance & administrative and research & development generally keep the pace of schedule of Qianlong Tien Di.

The following table illustrates the breakdown of total headcount of the Group at 30 June 2000:

	Planned Staff Level for 2000/6/30	Actual Staff as at 2000/6/30	Actual Staff as at 1999/12/31
Sales and marketing	34	32	14
Maintenance service and technical support	52	23	14
Finance and administrative	37	31	17
Research and development	16	17	15
	<hr/>	<hr/>	<hr/>
Total	139	103	60
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Product Development

The Group launched the initial product of the Magic Box Project, named the Intelligent Box I in March 2000 as in line with the schedule mentioned in the Prospectus. The Intelligent Box I is able to be connected with a cable or wireless networked television to provide investors with analytical tools. The Intelligent Box I has received good response from the market, and the Group derived RMB3.0 million revenue from this new product in the first half of 2000.

Currently, the Group is developing the Intelligent Box II, which is expected to be introduced in the fourth quarter of 2000.

The Group has completed the test of Window version for Stand-alone version. The product named Forever Winner has been launched in the market since May 2000, which is in line with the schedule. The Group sold 1,376 sets of Forever Winner up to 30 June 2000.

The Group has continued to actively promote the Millennium Winner, which was launched in the last quarter of 1999 and used by small-sized securities houses. The Group sold 27 sets of Millennium Winner up to 30 June 2000.

The Group plans to launch new and upgraded versions for both Network and Stand-alone Versions in the fourth quarter of 2000.

As for Window CE versions, which are operating in mobile computing devices like palm-top and sub-notebook, the schedule of launching in the market might be rescheduled as and when the Group considered that the market response is positive.

Research and Development

The Group with its research and development team, is continuously upgrading its software versions for DOS system and newly introduced Window version.

The Group set up a research and development center in Taiwan in the first quarter of 2000. Up to 30 June 2000, HK\$2.3 million has been used for the establishment of this center, and 5 staff including 4 research professionals have been recruited. The objective of the research center is to develop a series of products of the Magic Box Project, as well as other new products. The Group intends to recruit more professionals to work with the research and development center in Taiwan and/or enter to sub-contracts with third parties for specific research and development projects.

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. Up to 30 June 2000, part of the proceeds were used to set up a research and development center in Taiwan (HK\$2.3 million), to implement project Qianlong Tian Di (HK\$3.95 million), and a down payment for acquisition of 99.3% equity interest in Chien Lung Investment Company Limited (HKD1.5 million, please refer to Announcement on GEM Website dated 26th June 2000 for detailed information). Cash and bank balance of the Group as at 30 June 2000 were RMB88.9 million equivalent, representing the unused proceeds of the initial public offering and funds generated from the Group's operation.

DIRECTORS' INTEREST IN SECURITIES

As at 30 June 2000, the interests of the Directors and their associates in the share capital of the Company and its associated corporations as defined in the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of directors	Number of shares held	
	Type of interest	Total
Chen Shen Tien	Corporate (<i>Note</i>)	122,500,000
Fan Ping Yi	Corporate (<i>Note</i>)	122,500,000
Wang Chen Yu, Cycle	Personal	3,750,000
Du Hao	Personal	1,875,000
Chen Si Yuan	Personal	1,875,000
Chen Ming Chuan	Corporate (<i>Note</i>)	122,500,000
Yu Shih Pi	Corporate (<i>Note</i>)	122,500,000

Note: At 30 June 2000, Messrs. Chen Shen Tien, Fan Ping Yi, Chen Ming Chuan and Yu Shih Pi were substantial shareholders of Willing Systems Corporation ("Willing") which beneficially held 122,500,000 shares representing 58.19% interest in the Company.

Save as disclosed above, none of the Directors or their associates had any interests in the share capital of the Company or its associated corporations (as defined in the SDI Ordinance).

The interests of the management shareholders (as defined in the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules")) in the share capital of the Company are the same as disclosed above.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

At no time during the period ended 30 June 2000 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2000, in addition to those interests as disclosed above in respect of the Directors, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company.

Name	Number of the shares held (Note)
Qianlong Technology Inc.	122,500,000
Willing Systems Corporation	122,500,000

Note: Qianlong Technology Inc. is a wholly owned subsidiary of Willing and Willing is taken to be interested in 122,500,000 shares which is the same parcel of shares registered in the name of Qianlong Technology Inc.

SPONSOR'S INTERESTS

An associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of the Company's sponsor, Core Pacific - Yamaichi International (H.K.) Limited ("CPYI"), was interested in 2,800,000 shares of HK\$0.10 each in the share capital of the Company as at 30 June 2000.

As updated and notified by the Company's sponsor, Core Pacific - Yamaichi Capital Limited ("CPY"), as at 30 June 2000, save as disclosed above, neither CPY nor its directors, employees or associates, had any interests in the share capital of the Company.

Pursuant to the agreement dated 6 December 1999 entered into between the Company and CPY, CPY has received and will receive a fee for acting as the Company's retained sponsor for the period from 17 December 1999 to 31 December 2001.

COMPETING INTERESTS

Willing, being management shareholders of the Company, is engaged in the development and distribution of securities analysis software to provide real time and non real time securities trading information and technical analysis on the securities traded on Taiwan Stock Exchange. During the six months ended 30 June 2000, Willing recorded an unaudited turnover and net loss of NT\$1,113,600 and NT\$699,320, respectively.

Note: At 30 June 2000, Messrs. Chen Shen Tien, Fan Ping Yi, Chen Ming Chuan and Yu Shib Pi, who are Directors, were also directors of Willing.

AUDIT COMMITTEE

The Group has established an audit committee in 1999. The committee has constantly 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. THE YEAR 2000 PROBLEM

As at the current reporting date, the Group has been successful in ensuring that the date change from 1999 to 2000 did not affect the Group's operations and financial results, nor that the systems of third parties with which the Group does business have an adverse effect on the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2000 neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

On behalf of the Board
Chen Shen Tien
Chairman

Hong Kong, 10 August 2000