



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)

QUARTERLY 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 46% to approximately RMB 36.7 million
- Net profit attributable to shareholders down by 43.8% to approximately RMB5.6 million
- Basic earnings per share of RMB2.68 cents

UNAUDITED QUARTERLY 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 nine months and three months ended 30 September 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

	<i>Note</i>	Nine Months Ended 30 Sept		Three Months ended 30 Sept	
		2000	1999	2000	1999
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
GROUP RESULTS					
Turnover	1	36,681	25,141	11,781	9,410
Profit before taxation		7,409	11,486	1,891	4,645
Taxation	2	1,765	1,442	593	622
Profit after taxation		5,644	10,044	1,298	4,023
Dividends	3	0	28,019	0	7,037
Earnings per share (RMB cents)	4	2.68	6.70	0.62	2.68

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 September 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, the maintenance service fees and consultant service fees, 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:

	Nine Months Ended 30 Sept		Three Months Ended 30 Sept	
	2000	1999	2000	1999
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of computer software	17,306	9,113	5,213	4,374
Maintenance service fees	19,328	16,015	6,537	5,023
Others	47	13	31	13
	<u>36,681</u>	<u>25,141</u>	<u>11,781</u>	<u>9,410</u>

2) *Taxation*

	Nine Months Ended 30 Sept		Three Months Ended 30 Sept	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong	0	0	0	0
PRC	1,765	1,442	593	622
	<u>1,765</u>	<u>1,442</u>	<u>593</u>	<u>622</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.

3) *Dividends*

Dividends for the nine months ended 30 September 1999 were RMB\$28,019,000, 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 nine months ended 30 September 2000.

4) *Earnings per share*

	Nine Months Ended 30 Sept		Three Months Ended Sept 30	
	2000	1999	2000	1999
	Earnings per share (RMB cents)	2.68	6.70	0.62

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 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 nine months and three months ended 30 September 1999 is based on the profits attributable to shareholders of RMB10,044,000 and RMB4,023,000 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 nine months and three months ended 30 September 2000 is based on the profits attributable to shareholders of RMB5,644,000 and RMB1,298,000 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 September 2000 and 1999.

BUSINESS REVIEW

The Group has shown a strong sales growth for the first nine 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 nine months ended 30 September 2000, the Group's turnover was approximately RMB36.7million, representing a 46% 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 2000 due to the Company's regional expansion. 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 recruitment. 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 approximately consolidated profit of RMB5.6million for the first nine months of 2000, a 43.8% drop as compared with that for the same period of the previous year.

In respect of turnover in the third quarter of 2000, the Group recorded an increased by 25% as compared to the same period of 1999. The revenue growth for the third quarter of 2000 was slower than the first two quarters of 2000 as the consequence of price competition and consolidation of stock market in the third quarter. The net profit attributable to shareholders dropped by 67.7% in the third quarter of 2000 as compared with that of the same period last year. The drop in profitability is a result that the decrease in profit margin on securities analysis software, 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 nine months of 2000, the Group sold 182 sets of Network Version to new users, 38 sets more than that of the same period of 1999.

Stand-alone Version

Due to the stock market sentiment recovery from the Asia financial crisis in 1998 and 1999, the Group sold 145,779 sets of Stand-alone Version in the first nine months of 2000, which represents 215% equivalent of the 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 approximately total revenue of RMB3.9 million on sale of the Intelligent Box I in the first nine months of 2000.

Maintenance Fee

Maintenance fee has remained stable and remains the major revenue contributor to the Group. The Group recorded an approximately total revenue of RMB19.3 million of maintenance fee in the first nine months of 2000, representing 20.7% 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 2,900 as at 30 September 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 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. After cautious evaluation and choosing of ideal locations, the second store of Worry-Free, which is located at downtown Shanghai, currently is under renovation and is scheduled to be opened and operated by early December of 2000.

The Directors have assessed the market intelligence and reviewed the performance of Qianlong Tian Di, then formulate to keep carrying out 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.

Up to 30 September 2000, the Group has signed franchised agreements with 22 existing sale agents of the Group, including 15 in Shanghai, 2 in Nanjing, and 5 in Zhejiang Province. The franchised sales agents provides a total of 28 retail stores with the trademark "Qianlong Tian Di" with their stores, and the Group 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 Shandong, Tianjin and Shenyang, and enter into franchised agreements with qualified sales agents in these areas for the remaining year of 2000.

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 September 2000, including operating expenses of RMB 2.6 million, and fixed assets/decoration/equipment of RMB1.6 million, funded by the listing proceeds.

Deployment of Human Resources

During the first nine months of 2000, the Group recruited 62 staff for the expansion plan of the Group in Hong Kong, Shanghai and Taipei office, which comprise 27 staff in sales and marketing, 9 professional staff in maintenance service and technical support, 23 staff in finance and administrative and 3 research and development engineers. The business progress of deployment in human resource in the nine 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 Tian Di.

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

	Planned Staff Level for 2000/12/31	Actual Staff as at 2000/9/30	Actual Staff as at 1999/12/31
Sales and marketing	52	41	14
Maintenance service and technical support	82	23	14
Finance and administrative	55	40	17
Research and development	17	18	15
	<u>206</u>	<u>122</u>	<u>60</u>

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 RMB3.9million revenue from this new product in the first nine months of 2000.

Currently, the Group is developing the Intelligent Box II, which is now at test run stage, and is expected to be introduced in early 2001.

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 2,041 sets of Forever Winner up to 30 September 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 42 sets of Millennium Winner up to 30 September 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 Windows CE versions, which are operating in mobile computing devices like palm-top and sub-notebook, the schedule of launching in the market might be re-scheduled 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 September 2000, HK\$6.6 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 September 2000, part of the proceeds were used to set up a research and development center in Taiwan (HK\$6.6 million), to implement project Qianlong Tian Di (HK\$3.95 million), to acquire 99.3% equity interest in Chien Lung Investment Company Limited (HK\$3.4 million, please refer to Report on GEM Website dated 26th June 2000 for detailed information), to acquire 33.3% equity in Shanghai Gloucester Waalker Investment Management Consultant (HK\$0.94 million), to acquire 30% equity interest in Exite Interactive Media Cayman Incorporation (HK\$0.47 million), and to accommodate working capital need (HK\$2.4 million). Cash and bank balance of the Group as at 30 September 2000 were RMB87.6 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 September 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 September 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 September 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 September 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 (<i>Note</i>)
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 2,904,000 shares of HK\$0.10 each, representing 1.38% of issue capital of the Company as at 30 September 2000.

As updated and notified by the Company's sponsor, Core Pacific - Yamaichi Capital Limited ("CPY"), as at 30 September 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 nine months ended 30 September 2000, Willing recorded the unaudited turnover and net loss of NT\$1,265,981 and NT\$1,461,821, respectively.

Note: At 30 September 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the nine months ended 30 September 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, 13 November 2000