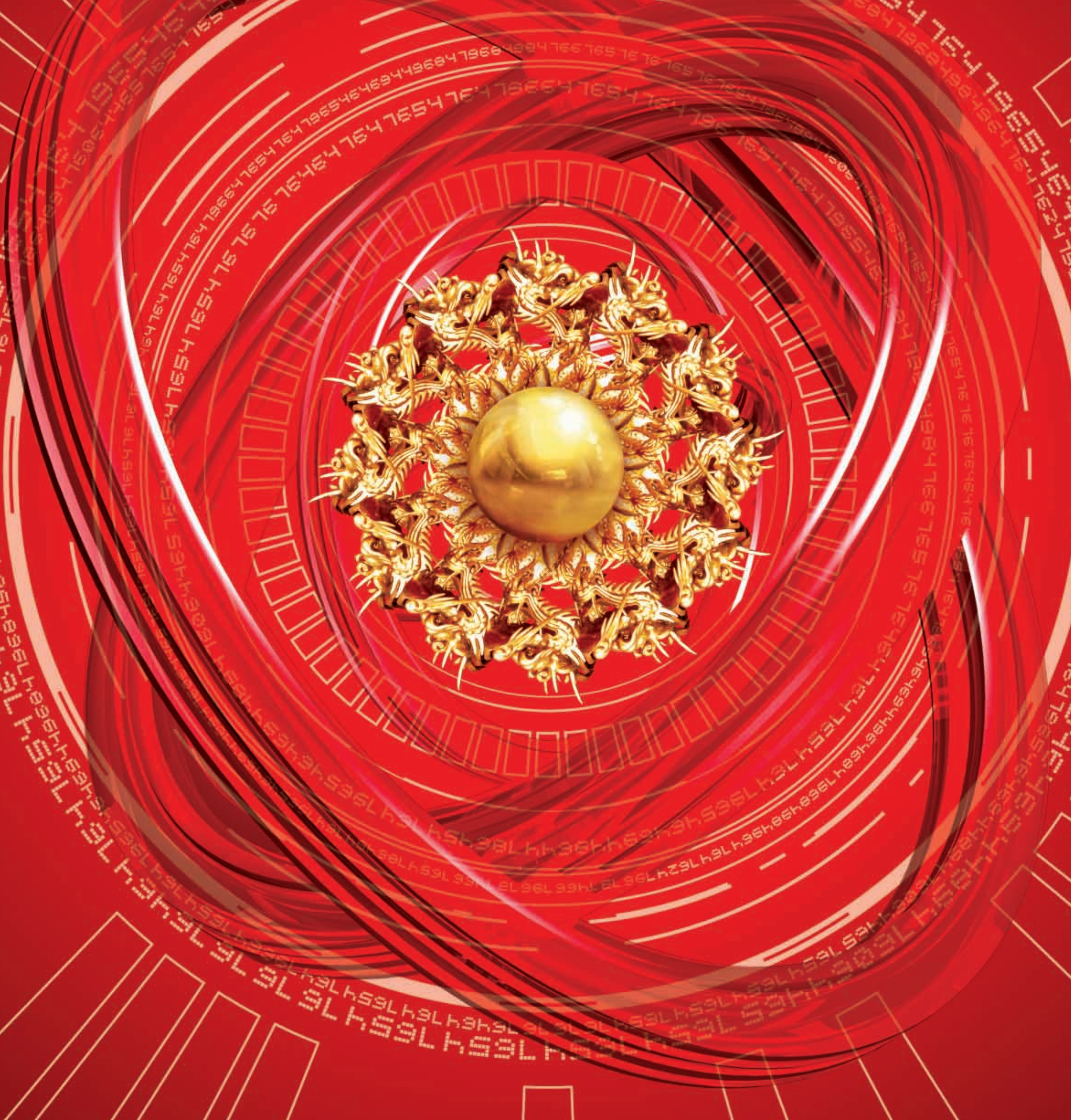
Qianlong Technology International Holdings Limited

乾隆科技國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "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 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 Exchange. Listed companies are not generally required to issue paid announcement 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.

The Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

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

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CORPORATE INFORMATION

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, Andrew

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
Shanghai Commercial Bank Limited

AUDITORS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
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 4B, 12th Floor
Lippo Centre Tower II
89 Queensway
Admiralty
Hong Kong

GROUP RESULTS

	Year End 31 December	
	2001	2000
	RMB'000	RMB'000
GROUP RESULTS		
Turnover	40,640	46,713
(Loss)/Profit before taxation	(14,034)	7,400
Taxation	(881)	(2,355)
(Loss)/Profit after taxation	(14,915)	5,045
Minority Interests	2	—
Loss/Profit attributable to shareholders	(14,913)	5,045
Dividends attributable to the year		
— Final dividend proposed after the balance sheet date	—	4,462

BASIC EARNINGS PER SHARE

	Year End 31 December	
	2001	2000
(Loss)/Earnings per share (RMB cents)	(7.08)	2.40

The calculation of the loss per share for the year 2001 is based on the loss attributable to shareholders for the year ended 31 December 2001 of RMB14,913,000 divided by the weighted average number of 210,500,000 shares in issue during the year.

The calculation of earnings per share for the year 2000 is based on the profit attributable to shareholders for the year ended 31 December 2000 of RMB5,045,000 divided by the weighted average number of 210,500,000 shares in issue during the year.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2001 and 2000.

DIVIDEND

The Board of Directors does not recommend the payment of any dividend attributable to 2001.

The Company distributed RMB4,462,000 (HKD4,210,000 or HKD2 cents per share) dividends to shareholders from the profit attributable to shareholders for the year ended 31 December 2000.

- **Turnover breakdown by product catalogue**

	2001		2000	
	RMB'000	%	RMB'000	%
Sale of computer software	12,514	31	20,797	44
Maintenance service fees	27,464	67	25,853	55
Consulting service fees	662	2	63	1
	40,640	100	46,713	100

- **Group assets and liabilities**

	2001	2000 restated
	RMB'000	RMB'000
Fixed Assets	7,308	9,667
Other non-current assets	10,322	5,149
	17,630	14,816
Current Assets		
Inventories	1,665	1,564
Investments in securities	—	6,000
Trade and other receivables	13,899	24,702
Cash and cash equivalents	60,680	66,236
	76,244	98,502
Current Liabilities		
Trade and other payables	22,332	21,823
Taxation	99	476
	22,431	22,299
Net Current Assets	53,813	76,203
Minority interests	16	19
Net Assets	71,427	91,000
Share capital	22,420	22,420
Reserves	49,007	68,580
	71,427	91,000

On behalf of the Board of Directors, I am pleased to present the annual report of Qianlong Technology International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2001.

BACKGROUND

The year 2001 is a challenging year for the Group: the world economy was in recession, the stock market was bearish in the People's Republic of China ("PRC"), the competition in securities analysis software was very tough with price cut and new comers. The Group thus experienced a tough year; nevertheless, with the best efforts of all colleagues, the Group still kept its leading position in the segment of securities analysis software in the PRC, providing the advanced and reliable IT solution to the investors in the region, and obtained a positive growth of net-work version of securities analysis software. We believe the worst year is over, and the Group will try its best efforts to adjust strategies and improve performance in next year. 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 this goal, the Group will initiate different strategies to implement its business objectives.

BUSINESS REVIEW

For the year ended 31 December 2001, the Group reported a turnover of RMB40,640,000, representing a decrease of 13% as compared with that of the previous year. The sales decrease was due to the around 80% sales down of stand-alone version of securities analysis software as a result of tough market competition, price downward adjustment and the stagnant stock market in the PRC. Whereas, the Group still achieved a positive growth in network version of securities analysis software and stable increase in maintenance fees and consulting service fees in 2001.

On the other side, the Group recorded a net loss attributable to shareholders of RMB14,913,000 for 2001, whereas a net profit attributable to shareholders of RMB5,045,000 was recorded for the previous year. The loss in 2001 was resulted from the following reasons: (1) the sales and selling prices of stand-alone version of securities analysis software were dropped due to the stagnation of the PRC stock market and keen competition, while the costs of R & D teams was fixed; (2) taking the chance that the government prohibited forged software, the Group adopted a specific promotion strategy to occupy market share of network version, additional promotion expenditures thus incurred in the fourth quarter of 2001; (3) the loss incurred by the Group's two wholly-owned subsidiaries Worry-Free Shanghai (started operation in May 2000) and Worry-Free Taipei Office (started operation in January 2001); (4) some of the Group's strategic investments are at start-up stage; and (5) the increases in depreciation of the Group's fixed assets and amortisation of goodwill.

PROSPECTS

In spite of the unsatisfactory performance for 2001, the Group, with its 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 remains its goal of becoming a market leader in the provision of digital computing solution in the PRC.

To meet this goal, the Group will adjust its strategies and adopt the following steps in 2002:

- Develop new products of securities analysis software such as software with both technical analysis, listed companies' basic information, and economic news, and software which could be automatically shifted between satellite and DDN (Digital Data Network) that are currently the only information sources for stock market, so as to avoid communication breakdown due to interruption in either source. In addition, develop the internet version of securities analysis software which could be provided to major customers by the securities houses or to community residents in the residential areas.

- Restructure Worry-Free Consulting (Shanghai) Limited by setting up more small-sized stores to replace the existing stores so as to effectively strengthen the Group's sales channel and distribution network across the PRC.

- Seek co-operative partners for Shanghai Qianlong Advanced Technology Company Limited to introduce more new products, enhance R & D ability and strengthen the Group's financial position.

The Directors believe the Group's performance will be improved and the prospect for the Group is positive and bright in 2002.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2001, the Group had total assets of RMB93.8 million, which were financed by current liabilities of RMB22.4 million and shareholders' equity of 71.4 million. The Group had a working capital ratio of approximately 3.4:1. At 31 December 2001, the Group had no short-term or long-term bank loans, and cash and cash equivalent totaled RMB60.7 million.

Chen Shen Tien
Chairman

Hong Kong, 25 March 2002

MAJOR SUBSIDIARIES AND ASSOCIATES

Shanghai Qianlong Advanced Technology Company Limited

Established in September 1994 and 100% controlled by the Group, Shanghai Qianlong Advanced Technology Company Limited is engaged in the development, production and distribution of securities analysis computer software. Shanghai Qianlong Advanced Technology Company Limited is one of the market leaders in the PRC.

Ningbo Qianlong Computer Software Company Limited

Established in January 1993 and 100% controlled by the Group, Ningbo Qianlong Computer Software Company Limited is the first company that the Group set up in the PRC. Ningbo Qianlong Computer Software Company Limited is now focusing on the development, production and sale of Intelligent Box II.

Worry-Free Consulting (Shanghai) Limited

Worry-Free Consulting (Shanghai) Limited, a 100% owned subsidiary of the Group, started its operation in May 2000 to establish retail outlets so as to build up a software distribution network in the PRC for the Group as well as other software products. In 2001, Worry-Free Consulting (Shanghai) Limited had 2 retail outlets in Shanghai.

Worry-Free Taipei Branch

Worry-Free Taipei Branch was set up in January 2001 and 100% controlled by the Group, to provide "after market" securities analysis software to customers in Taiwan. The Branch also provides PRC securities analysis software to investors in Taiwan.

Chien Long Investment Company Limited

Chien Long Investment Company Limited was established in July 1998 in Taiwan, and the Group acquired 99.3% interest in June 2000. Chien Long Investment Company Limited holds investments in companies engaged in the IT, Internet, Hi-tech industries.

Arrow Goal Enterprises Corporation

Arrow Goal Enterprises Corporation was established in the British Virgin Islands in November 2000, and is 49% owned by the Group. Arrow Goal invests in Shanghai Hua Ding Financial Software Company Limited, which is engaged in the development, production and distribution of software for analysis of bond, stock fund, and future.

Shanghai Gloucester Waalker Investment Management Company Limited

Established in October 1997 and the Group acquired 33.3% interest in July 2000, Shanghai Gloucester Waalker Investment Management Company Limited is engaged in the business of consulting, training, and human resource services.

Executive Directors

Mr. Chen Shen Tien, aged 44, 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 7 years experience in the IT industry.

Mr. Fan Ping Yi, aged 43, 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 17 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 43, is an executive 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 holds a bachelor's degree in mathematics from Soochow University in the ROC. Mr. Wang has over 17 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. Du Hao, aged 33, is an executive director of the Group and the executive deputy general manager of Shanghai Qianlong Advanced Technology Company Limited. He is responsible for the daily operation of Shanghai Qianlong Advanced Technology Company Limited. He joined the Group in 1993 and has over 8 years of product research and development experience. He holds a master of science degree in electronic engineering from Fudan University.

Mr. Chen Si Yuan, aged 39, is an executive director of the Group and is responsible for product research and development of the Group. He joined the Group in 1994 and has over 7 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 37, is the vice-president of research and development department in Willing of Taiwan. Mr. Chen has engaged in the IT industry over 17 years with intensive experience in development of securities analysis software.

Mr. Yu Shih Pi, aged 39, 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 55, 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 53, has over 30 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. Horng Chorng Liang, aged 45, is the general manager of Worry-Free Consulting (Shanghai) Limited. He holds a master degree from Japan National Tsukuba University, and has over 16 years experience in the IT Industry.

Mr. Lee Ping Lin, aged 38, is the executive deputy general manager of Ningbo Qianlong Computer Software Company Limited, and is responsible for the daily operation of Ningbo Qianlong Computer Software Company Limited. He holds a bachelor's degree from Taiwan Tam Kang University, and has 13 years of experience in the IT industry.

Mr. Kuo Chih Ming, aged 44, is the head of brand operation center of the Group. He is responsible for the Group's brand and trademark management. He is also responsible for the marketing and business planning of Worry-Free Consulting (Shanghai) Limited. He holds a bachelor's degree from Fujen University of Taiwan. He has over 10 years experience in the media and advertisement field.

Mr. Fu Wu Hao, aged 42, is the deputy general manager of Worry-Free Consulting (Shanghai) Limited. He is responsible for sales and stock technical analysis training. He is graduated from Wan Neng Industrial and Commercial College, and has 15 years experience in the field of IT industry and 1 year experience in the securities field.

Mr. Soog Li Que, aged 34, is the deputy general manger of Shanghai Qianlong Advanced Technology Company Limited. He is responsible for the development and marketing of new products for Shanghai Qianlong Advanced Technology Company Limited. He holds a bachelor's degree from Shanghai University, and has 7 years of experience in the IT industry.

Mr. Zhou Xiang, aged 31, is the head of technology and R & D of Shanghai Qianlong Advanced Technology Company Limited. He is in-charge of technology and R & D teams of Shanghai Qianlong Advanced Technology Company Limited. He holds a bachelor's degree from Hua Zhong Science and Technology University, and has 7 years of experience in the IT industry.

Qualified Accountant

Mr. Ip Pui Lam, Arthur, aged 40, is the qualified accountant of the Group. He has over 10 years of experience in accounting and finance. He joined the Group in 2000. He is a fellow member of the Association of International Accountants and an associate member of the Hong Kong Society of Accountants.

NETWORK VERSION

A majority of the Group's Network Version business is derived from the new branches opening of securities houses across the PRC. In spite of the bearish PRC stock market in 2001, the Group's turnover of Network Version recorded a satisfactory growth of 28% from RMB7,580,000 in 2000 to RMB9,719,000 in 2001, primarily attributed to the continuous expansion of PRC securities houses by opening new sub-branches and the Group's successful promotion strategy in the fourth quarter of 2001.

STAND-ALONE VERSION

The Stand-alone Version sales suffered a drop of around 80% in 2001, as a result of the stagnation of the stock market in PRC and the tough price competition of the industry.

MAINTENANCE FEE

Maintenance fee in 2001 mildly grew by 6% to reach RMB27,464,000, primarily attributable to the accumulated number of users of Network Version. The total number of Network Version users exceeded 4,000 in 2001. Maintenance fee has remained the major and stable revenue contributor to the Group, and kept steady yearly growth over the past years.

CONSULTING SERVICE FEE

Consulting service fee increased from RMB63,000 in 2000 to RMB662,000 in 2001. The income was primarily generated from consulting services provided by Worry-Free Consulting (Shanghai) Limited and Worry-Free Taipei Branch.

DEPLOYMENT OF HUMAN RESOURCES

During the year 2001, the Group recruited additional 27 staff for the establishment of Worry-Free Taipei Branch, and enhancement of the Group's sales and R & D teams. The staff number increased from 137 as at 31 December 2000 to 164 as at 31 December 2001.

PRODUCT DEVELOPMENT

The Group launched the Intelligent Box I in March 2000. The Intelligent Box I can be connected with a cable or wireless networked television to provide investors with analytical tools. After over one year research and development, the Group launched the Intelligent Box II in September 2001.

The Group launched the upgraded Forever Winner in March 2001, which is Windows version for Stand-alone version. In June 2001, the Group launched another version of Forever Winner, which is used by securities professionals.

In 2001, the Group also launched a new Network Version which can be used by 60 users at the same time and is suitable for small-sized securities houses.

In addition, the Group upgraded both Stand-alone Version and Network Version in August 2001.

RESEARCH AND DEVELOPMENT

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

The Group set up a research and development center in Taipei, Taiwan in the first quarter of 2000, and 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.

USE OF PROCEEDS OF SHARE OFFER

On 17 December 1999 the Company raised net proceeds of HKD49.6 million through the initial public offering of the shares of the Company. Of the HKD49.6 million raised during our initial public offering and up to the year end 31 December 2001, approximately HKD9.1 million was used to set up a research and development center in Taiwan, approximately HKD11.7 million was used to implement project Qianlong Tian Di, approximately HKD3.4 million was used to acquire 99.3% equity interest in Chien Lung Investment Company Limited (please refer to Announcement on GEM Website dated 26th June 2000 for detailed information), approximately HKD0.94 million was used to acquire 33.3% equity in Shanghai Gloucester Waalker Investment Management Company Limited, approximately HKD0.47 million was used to acquire 30% equity interest in Excite Interactive Media Cayman Incorporation, approximately HKD1.87 million was used to invest in 49% of Arrow Goal Enterprises Corporation, approximately HKD2.34 million was used to invest in Atgame, approximately HKD3.2 million was used to set up Worry-Free Taipei Branch, and approximately HKD10.2 million was used to accommodate working capital. Cash and bank balance of the Group as at 31 December 2001 were RMB60.7 million equivalent, representing the unused proceeds of the initial public offering and funds generated from the Group's operation.

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the research, development and distribution of software, the provision of the related maintenance and consulting services and investment in IT companies.

The analysis of the principal activities of the Company and its subsidiaries during the financial year is set out in note 12 on the financial statements.

No geographical analysis is shown as the principal activities of the Group are mainly carried out in the People's Republic of China.

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 Group's total	
	Sales	**Purchase**
The largest customer	7%	
Five largest customers in aggregate	18%	
The largest supplier		21%
Five largest suppliers in aggregate		59%

At no time during the year have the directors, their associates or any shareholders 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.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 18 to 50.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to RMB320,000 (2000: RMB230,000).

FIXED ASSETS

Details of the acquisition and other movements in fixed assets of the Group and the Company during the year are set out in note 13 on the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 23 on the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2001 neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 24 on the financial statements.

DIRECTORS

The directors of the Company during the financial year were:

Executive directors

Chen Shen Tien *(Chairman)*	
Fan Ping Yi *(Vice chairman)*	
Wang Chen Yu, Cycle *(Managing director)*	
Du Hao	(re-elected on 12 April 2001)
Chen Si Yuan	(re-elected on 12 April 2001)

Non-executive directors

Chen Ming Chuan	
Yu Shih Pi	(re-elected on 12 April 2001)

Independent non-executive directors

Yu Chi Chen, Franklin
Chiu Kam Hing, Kathy

In accordance with article 116 of the Company's Articles of Association, Mr. Chen Ming Chuan, Mr. Yu Chi Chen, Franklin and Ms. Chiu Kam Hing, Kathy retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The non-executive directors were appointed by the board of directors on 8 October 1999 and 2 December 1999 respectively, each to hold office until his or her successor shall be appointed or his or her earlier removal from or vacation of office. Their remuneration is determined by the board of directors.

No director proposed for re-election at the forthcoming Annual General Meeting has 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' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors, chief executive and their associates in the issued share capital of the Company and its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Number of shares held	
Name of directors	**Type of interests**	**Total**
Chen Shen Tien	Corporate *(note)*	122,500,000
Fan Ping Yi	Corporate *(note)*	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 *(note)*	122,500,000
Yu Shih Pi	Corporate *(note)*	122,500,000

Note: At 31 December 2001, Messrs Chen Shen Tien, Fan Ping Yi, Chen Ming Chuan and Yu Shih Pi were substantial shareholders of Willing System Corporation which beneficially held 122,500,000 shares representing 58.19% interest in the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Pursuant to a written resolution passed on 2 December 1999 ("Adoption Date"), a share option scheme for employees was approved and the directors may, at their discretion, invite any employee or executive director of the Group, to take up options to subscribe for shares of the Company. Unless terminated by the Company by general meetings, the share option scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date.

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 employees share option scheme) exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose (i) any shares which have been duly allotted and issued on the exercise of the options granted under the share option scheme and any other schemes; and (ii) any pro rata entitlements to further shares issued in respect of those shares referred to in (i) during a specified period of 10 consecutive years.

No option may be granted to any employee which, if exercised in full, would result in the total number of shares already issued and issuable to him under the share option scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the share option scheme.

The subscription price for shares under the scheme will be a price determined by the board and notified to each grantee and will be the higher of (i) the closing price of the shares on the date of grant; (ii) average closing prices of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

Up to 31 December 2001, no option has been granted to any employee or director of the Company or any of its subsidiaries under this share option scheme.

Apart from the foregoing, at no time during the year or up to the date of this report was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company 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

As at 31 December 2001, 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)*
Willing System Corporation	122,500,000
Qianlong Technology Incorporation	122,500,000

Note: Willing System Corporation beneficially owns 122,500,000 shares which have been included in the above mentioned number of shares held by its wholly-owned subsidiary, Qianlong Technology Incorporation.

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 (the "ROC") with remaining registration period expiring November 2007 to the Company for a nominal consideration of USD1. 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 USD1 for a period from September 1999 to November 2007.

On 23 November 2001, a subsidiary of the Group, Shanghai Qianlong Advanced Technology Company Limited ("Shanghai Qianlong"), conditionally entered into an acquisition agreement with a related company which is held by Mr. Chen Shen Tien and Mr. Fan Ping Yi, the executive directors of the Group to purchase a property located in the PRC for a consideration of US$1,080,000. Under the agreement, the legal title of the property will be transferred to Shanghai Qianlong in 2002. As at the balance sheet date, Shanghai Qianlong has paid deposits of US$750,000 (RMB6,200,000).

Apart from the foregoing, no contract of significance to which the Company, any of its holding companies, subsidiaries or fellow 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.

COMPETING INTERESTS

Willing System Corporation, being management and the ultimate shareholders of the Company, was formerly 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. Willing System Corporation ceased such business and became an investment holding company in January 2001.

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, was interested in 2,904,000 shares of HK$0.10 each in the share capital of the Company as at 31 December 2001.

As updated and notified by the Company's sponsor, Core Pacific—Yamaichi Capital Limited ("CPY"), as at 31 December 2001, 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.

Upon the expiry of the agreement with CPY, the Company has appointed CSC Asia Limited as sponsor since January 2002.

AUDIT COMMITTEE

The Group has established an audit committee in 1999, comprising 3 members of Mr. Chen Shen Tien, Mr. Yu Chi Chen, Franklin, and Ms. Chiu Kam Hing, Kathy in compliance with the requirements as set out in Rule 5.23 and 5.24 of the GEM Listing Rules. The committee held one meeting during the year. Its duties included the review and supervision of 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.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, since the incorporation of the Company, is set out on pages 51 to 52.

RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in note 26(a) on the financial statements.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied throughout the year with the GEM Listing Rules as set out by The Stock Exchange of Hong Kong Limited.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment 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, 25 March 2002

KPMG

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

We have audited the financial statements on pages 18 to 50 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the Group's loss 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 the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 25 March 2002

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2001
(Expressed in Renminbi)

	Note	2001 RMB'000	2000 RMB'000
Turnover	2	40,640	46,713
Cost of sales		(13,733)	(18,005)
		26,907	28,708
Other revenue	3	8,092	7,155
Other net losses	3	(3,677)	—
Distribution costs		(7,114)	(3,569)
Administrative expenses		(36,245)	(23,294)
Other operating expenses		(1,043)	(492)
(Loss)/profit from operations		(13,080)	8,508
Share of losses of associates		(954)	(1,108)
(Loss)/profit from ordinary activities before taxation	4	(14,034)	7,400
Taxation	5(a)	(881)	(2,355)
(Loss)/profit from ordinary activities after taxation		(14,915)	5,045
Minority interests		2	—
(Loss)/profit attributable to shareholders	8	(14,913)	5,045
Dividends attributable to the year:	9		
Final dividend proposed after the balance sheet date		—	(4,462)
(Loss)/earnings per share — basic	10	(7.08 cents)	2.40 cents

The notes on pages 23 to 50 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2001
(Expressed in Renminbi)

	Note	2001 RMB'000	2000 RMB'000
Exchange differences on translation of the financial statements of foreign entities	24(a)	(198)	23
Net (losses)/gains not recognised in the income statement		(198)	23
Net (loss)/profit for the year		(14,913)	5,045
Total recognised gains and losses		(15,111)	5,068

The notes on pages 23 to 50 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2001
(Expressed in Renminbi)

	Note	2001		2000	
		RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)
Non-current assets					
Fixed assets	13(a)		7,308		9,667
Goodwill	14		—		729
Interest in associates	16		991		2,289
Investments in securities	17(a)		9,331		1,331
Other non-current asset	18		—		800
			17,630		14,816
Current assets					
Inventories	19	1,665		1,564	
Investments in securities	17(b)	—		6,000	
Trade and other receivables	20	13,899		24,702	
Cash and cash equivalents	21	60,680		66,236	
		76,244		98,502	
Current liabilities					
Trade and other payables	22	22,332		21,823	
Tax payable	5(b)	99		476	
		22,431		22,299	
Net current assets			53,813		76,203
Total assets less current liabilities			71,443		91,019
Minority interests			16		19
Net assets			71,427		91,000
Capital and reserves					
Share capital	23		22,420		22,420
Reserves	24(a)		49,007		68,580
			71,427		91,000

Approved and authorised for issue by the board of directors on 25 March 2002

Chen Shen Tien
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 23 to 50 form part of these financial statements.

BALANCE SHEET

At 31 December 2001
(Expressed in Renminbi)

	Note	2001 RMB'000	2001 RMB'000	2000 RMB'000 (restated)	2000 RMB'000 (restated)
Non-current assets					
Fixed assets	13(b)		135		254
Interest in subsidiaries	15		25,685		30,126
			25,820		30,380
Current assets					
Trade and other receivables	20	312		1,717	
Cash and cash equivalents	21	28,942		51,327	
		29,254		53,044	
Current liabilities					
Trade and other payables	22	2,003		2,408	
Amounts due to subsidiaries		21,670		21,670	
		23,673		24,078	
Net current assets			5,581		28,966
Net assets			31,401		59,346
Capital and reserves					
Share capital	23		22,420		22,420
Reserves	24(b)		8,981		36,926
			31,401		59,346

Approved and authorised for issue by the board of directors on 25 March 2002

Chen Shen Tien
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 23 to 50 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2001
(Expressed in Renminbi)

	Note	2001 RMB'000	2000 RMB'000
Net cash inflow/(outflow) from operating activities	25(a)	2,559	(14,925)
Returns on investments and servicing of finance			
Interest received		2,523	4,269
Dividends paid		(4,462)	(67)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(1,939)	4,202
Taxation			
PRC tax paid		(1,258)	(481)
Investing activities			
Payment for purchase of fixed assets		(1,800)	(3,130)
Payment for purchase of a subsidiary	25(c)	—	(2,173)
Payment for purchase of interest in associates		—	(3,477)
Payment for purchase of investment securities		(9,917)	—
Proceeds from disposal of fixed assets		347	—
Proceeds from sale of investment securities		452	—
Payment for purchase of held-to-maturity securities		—	(6,000)
Proceeds from sale of held-to-maturity securities		6,000	—
Net cash outflow from investing activities		(4,918)	(14,780)
Decrease in cash and cash equivalents		(5,556)	(25,984)
Effect of foreign exchange rates		—	(380)
Cash and cash equivalents at 1 January		66,236	92,600
Cash and cash equivalents at 31 December		60,680	66,236
Analysis of the balances of cash and cash equivalents			
Deposits with banks and other financial institutions		30,572	52,054
Deposit with a financial intermediary		10,089	—
Cash at bank and in hand		20,019	14,182
		60,680	66,236

The notes on pages 23 to 50 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

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

(c) 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. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements. Intra-group balances and transactions, and any unrealised profits arising from inter- group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)).

(d) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive goodwill charged during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Dated debt securities that the Group and/or the Company have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) All other securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

(v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets

(i) Fixed assets are stated in the balance sheets at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1 (i)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) 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 income statement on the date of retirement or disposal.

(h) Depreciation

(i) *Buildings*

Buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 20 years from the date of completion, and the unexpired terms of the leases.

(ii) *Other fixed assets*

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

Leasehold improvements	Over the shorter of the unexpired lease term and the estimated useful lives
Computer equipment	3–5 years
Furniture, fixtures and office equipment	3–5 years
Motor vehicles	5 years

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investments in subsidiaries and associates; and

— positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) 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.

(k) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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.

(m) 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 income statement 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 or other sales taxes 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) *Consulting service fee income*

Consulting service fee are recognised as income on an accrual basis by referring to the stage of completion of the related services.

(iv) *Interest income*

Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

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

(n) 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 financial statements are stated in Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the exchange rates 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 translation are dealt with in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Translation of foreign currencies (Continued)

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

(o) Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(p) 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 the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(q) Retirement costs

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 income statement when they fall due.

(r) Related parties

For the purposes of these financial statements, 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.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Segment reporting (Continued)

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15 on the financial statements.

Turnover represents the sales value of goods supplied to customers and the maintenance and consulting service fees receivable, net of goods returned, trade discounts, business tax and value added tax. The Group's products and services are mainly 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:

	2001 RMB'000	2000 RMB'000
Sale of computer software	12,514	20,797
Maintenance service fees	27,464	25,853
Consulting service fees	662	63
	40,640	46,713

3. OTHER REVENUE AND NET LOSSES

	2001 RMB'000	2000 RMB'000
Other revenue		
Interest income	2,523	4,269
Value added tax refund (note)	5,133	1,117
Tax refund for re-investment in the PRC	143	1,351
Tax rebates from local government	—	100
Miscellaneous	293	318
	8,092	7,155
Other net losses		
Provision for diminution in value of investment securities	(1,470)	—
Loss on disposal of fixed assets	(1,480)	—
Impairment loss of goodwill	(785)	—
Gain on sale of investment securities	58	—
	(3,677)	—

Note: A tax concession has been granted by the PRC tax authorities to the Group's PRC subsidiaries as they are engaged in the business of the development and trading of computer software. Under this concession, the PRC subsidiaries are entitled to a refund of value added tax ("VAT") paid in excess of an effective rate of 3%. The amount of VAT refund is recognised as other revenue on an accrual basis.

4. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging:

	2001 RMB'000	2000 RMB'000
Cost of inventories	1,698	5,744
Staff costs (including retirement costs of RMB1,847,000 (2000: RMB947,000))	19,528	13,536
Amortisation of goodwill	262	262
Maintenance service expenses	10,770	9,835
Research and development costs	3,478	1,471
Depreciation	2,322	2,604
Operating lease charges — properties	4,626	2,356
Auditors' remuneration		
— provision for the year	852	803
— under provision for previous year	26	68

5. TAXATION

(a) No provision for Hong Kong Profits Tax has been made for the year or the preceding year as the Group did not earn operating profit subject to Hong Kong Profits Tax.

The provision for PRC taxation is based on the estimated taxable income for PRC taxation purposes for the year at the appropriate current rate of taxation.

There was no material unprovided deferred taxation during the year or the preceding year.

(b) Tax payable in the consolidated balance sheet represents Foreign Enterprises Income Tax payable by the PRC subsidiaries based on their estimated taxable income for the year at the appropriate current rate of taxation.

6. DIRECTORS' REMUNERATION

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

	2001 RMB'000	2000 RMB'000
Basic salary, allowances and other benefits	3,857	3,828
Discretionary bonus	—	673
Retirement scheme contributions	53	49
Total remuneration	3,910	4,550

6. DIRECTORS' REMUNERATION (Continued)

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

	2001 RMB'000	2000 RMB'000
Executive directors	1,265	1,617
	448	553
	420	524
	413	514
	413	514
Non-executive directors	330	207
	207	207
Independent non-executive directors	207	207
	207	207
	3,910	4,550

Each of Messrs Chen Shen Tien, Fan Ping Yi, Wang Chen Yu, 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 these contracts shall continue thereafter until terminated by either party giving to the other at least three months' prior notice in writing. 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 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 interests.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2000: one) is a director whose emoluments are disclosed in note 6 above. The aggregate of the emoluments in respect of the other four (2000: four) individuals are as follows:

	2001 RMB'000	2000 RMB'000
Basic salary, allowances and other benefits	3,177	2,916
Discretionary bonus	—	41
Retirement scheme contributions	17	—
Total remuneration	3,194	2,957

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the four (2000: four) individuals with highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
HK$Nil–HK$1,000,000	3	3
HK$1,000,001–HK$1,500,000	1	1

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a loss of RMB29,875,000 (2000 (restated) profit: RMB4,416,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2001 RMB'000	2000 RMB'000 (restated)
Amount of consolidated (loss)/profit attributable to shareholders dealt with in the Company's financial statements	(29,875)	4,416
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	6,392	—
Company's (loss)/profit for the year (note 24(b))	(23,483)	4,416

9. DIVIDENDS

(a) Dividends attributable to the year

	2001 RMB'000	2000 RMB'000
Final dividend proposed after the balance sheet date of Nil per share (2000: RMB2.12 cents)	—	4,462

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

9. DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 RMB'000	2000 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	4,462	—

10. (LOSS)/EARNINGS PER SHARE — BASIC

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of RMB14,913,000 (2000 profit: RMB5,045,000) and the weighted average number of 210,500,000 ordinary shares (2000: 210,500,000) in issue during the year.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2001 and 2000.

11. CHANGE IN ACCOUNTING POLICY

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries is recognised as income in the Company's income statement in the accounting period in which they are declared.

As a result of the new accounting policy, the Group's net assets in 2000 have been increased by RMB4,462,000. There is no impact on the Group's profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

12. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Distribution of computer software	:	The sale of self developed computer software and the provision of related maintenance services.
Provision of consulting service	:	The provision of information technology related consulting service.

12. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Distribution of computer software		Provision of consulting service		Consolidated	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000 (restated)
Revenue from external customers	39,978	46,650	662	63	40,640	46,713
Contribution from operations	10,810	19,832	(8,471)	(3,872)	2,339	15,960
Unallocated operating income and expense					(15,419)	(7,452)
(Loss)/profit from operations					(13,080)	8,508
Share of profits less losses of associates	(812)	(605)	(142)	(503)	(954)	(1,108)
Taxation					(881)	(2,355)
Minority interests					2	—
(Loss)/profit attributable to shareholders					(14,913)	5,045
Depreciation and amortisation for the year	1,673	2,286	537	238		
Impairment loss for the year	—	—	785	—		
Segment assets	20,254	14,067	2,052	2,540	22,306	16,607
Investment in associates	542	1,382	449	907	991	2,289
Unallocated assets					70,577	94,422
Total assets					93,874	113,318
Segment liabilities	19,767	19,084	482	253	20,249	19,337
Unallocated liabilities					2,182	2,962
Total liabilities					22,431	22,299
Capital expenditure incurred during the year	882	435	918	2,482		

12. SEGMENT REPORTING (Continued)

Business segments (Continued)

No geographical analysis is shown as the activities of the Group during the current and the prior financial year were mainly carried out in the PRC.

13. FIXED ASSETS

(a) Group

	Buildings	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2001	780	6,331	3,535	3,048	1,847	15,541
Exchange adjustments	—	—	(9)	(3)	—	(12)
Additions	—	779	574	176	271	1,800
Disposals	(643)	(782)	(332)	(667)	—	(2,424)
At 31 December 2001	137	6,328	3,768	2,554	2,118	14,905
Accumulated depreciation:						
At 1 January 2001	178	2,304	1,284	1,218	890	5,874
Exchange adjustments	—	—	(1)	(1)	—	(2)
Charge for the year	23	799	567	568	365	2,322
Written back on disposals	(164)	(133)	(83)	(217)	—	(597)
At 31 December 2001	37	2,970	1,767	1,568	1,255	7,597
Net book value:						
At 31 December 2001	100	3,358	2,001	986	863	7,308
At 31 December 2000	602	4,027	2,251	1,830	957	9,667

The buildings are located in the PRC and held under medium term leases.

13. FIXED ASSETS (Continued)

(b) Company

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:			
At 1 January 2001 and at 31 December 2001	216	117	333
Accumulated depreciation:			
At 1 January 2001	43	36	79
Charge for the year	77	42	119
At 31 December 2001	120	78	198
Net book value:			
At 31 December 2001	96	39	135
At 31 December 2000	173	81	254

14. GOODWILL

	RMB'000
Cost:	
At 1 January 2001 and at 31 December 2001	911
Accumulated amortisation and impairment losses:	
At 1 January 2001	182
Amortisation for the year	182
Impairment losses	547
At 31 December 2001	911
Carrying amount:	
At 31 December 2001	—
At 31 December 2000	729

15. INTEREST IN SUBSIDIARIES

	Company	
	2001	2000
	RMB'000	RMB'000
Unlisted shares, at cost	7,192	7,192
Amounts due from subsidiaries	34,524	22,934
Less: Impairment loss	(16,031)	—
	25,685	30,126

Details of the subsidiaries at 31 December 2001 are as follows. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

(Expressed in Renminbi)

15. INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place and form of incorporation and operation	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Particulars of issued/paid up capital	Principal activities
Qianlong Computers Company Limited	The British Virgin Islands ("BVI") (limited company)	100	—	US$10,000	Investment holding
Ningbo Qianlong Computer Software Company Limited	The People's Republic of China ("PRC") (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	PRC (wholly foreign-owned enterprise)	—	100	US$4,650,000	Development and trading of computer software and provision of the related maintenance services
Worry-free Technology Holdings Limited	BVI (limited company)	100	—	US$500,000	Investment holding
Worry-free Consulting (Shanghai) Limited	PRC (wholly foreign-owned enterprise)	—	100	US$1,500,000	Provision of software consulting services
Qianlong Internet Holdings Limited	BVI (limited company)	100	—	US$50,000	Investment holding
Chien Long Investment Company Limited	The Republic of China (limited company)	—	99.3	NTD7,338,010	Investment holding

16. INTEREST IN ASSOCIATES

	Group 2001 RMB'000	Group 2000 RMB'000
Share of net assets	991	1,971
Goodwill	398	398
Accumulated amortisation of goodwill	(160)	(80)
Impairment loss of goodwill	(238)	—
	991	2,289

Details of the associates at 31 December 2001 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of associate	Place and form of incorporation and operation	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Particulars of issued/ paid up capital	Principal activities
Shanghai Gloucester Waalker Investment Management Company Limited	PRC (equity joint venture)	—	33.3%	US$300,000	Provision of human resources consulting services
Excite Interactive Media (Cayman) Incorporation	The Cayman Islands (limited company)	—	30%	US$200,000	Dormant
Arrow Goal Enterprises Corporation	BVI (limited company)	—	49%	US$50,000	Investment in other IT companies

17. INVESTMENTS IN SECURITIES

(a) Non-current

	2001 RMB'000	2000 RMB'000
Investment securities		
Unlisted equity securities	9,331	1,331

17. INVESTMENTS IN SECURITIES (Continued)

(b) Current

	2001 RMB'000	2000 RMB'000
Held-to-maturity debt securities maturing within one year of the balance sheet date	—	6,000

18. 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 2002 to 31 December 2002 was disclosed as other non-current asset as at 31 December 2000 and has been included in prepayments, deposits and other receivables under current assets as at 31 December 2001.

19. INVENTORIES

	Group	
	2001 RMB'000	2000 RMB'000
Inventories comprise the following:		
Raw materials	213	591
Finished goods	1,452	973
	1,665	1,564

Included in finished goods are inventories of $99,000 (2000: $Nil), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	758	1,755	—	—
Prepayments, deposits and other receivables	13,141	22,947	312	1,717
	13,899	24,702	312	1,717

Included in the Group's prepayments, deposits and other receivables is an amount of RMB6,200,000 (2000 : Nil) representing deposit paid to a related company for the acquisition of a property. The details of which are set out in note 26(b) on the financial statements.

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

Included in trade and other receivables are trade debtors (net of specific allowances for bad and doubtful debts) with the following ageing analysis:

	Group	
	2001	2000
	RMB'000	RMB'000
Current	311	1,327
1 to 3 months overdue	97	270
More than 3 months overdue but less than 12 months overdue	350	158
	758	1,755

Debts are due within 30 days from the date of billings.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits with banks and other financial institutions	30,572	52,054	28,465	50,620
Deposit with a financial intermediary	10,089	—	—	—
Cash at bank and in hand	20,019	14,182	477	707
	60,680	66,236	28,942	51,327

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	1,005	1,132	—	—
Other creditors and accruals	5,450	5,458	2,003	2,408
Deferred revenue	15,877	15,233	—	—
	22,332	21,823	2,003	2,408

All accounts payable are due within one month and all the trade and other payables are expected to be settled within one year.

Deferred revenue represents maintenance service fees received in advance.

23. SHARE CAPITAL

	2001	2000
	RMB'000	RMB'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	106,510	106,510

23. SHARE CAPITAL (Continued)

	2001		2000	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Issued and fully paid:				
At 1 January	210,500,000	22,420	210,500,000	22,420

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

(a) Share option scheme

Pursuant to a written resolution passed on 2 December 1999 ("Adoption Date"), a share option scheme for employees was approved and the directors may, at their discretion, invite any employee or executive director of the Group, to take up options to subscribe for shares of the Company. Unless terminated by the Company by general meetings, the share option scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date.

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 employees share option scheme) exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose (i) any shares which have been duly allotted and issued on the exercise of the options granted under the share option scheme and any other schemes; and (ii) any pro rata entitlements to further shares issued in respect of those shares referred to in (i) during a specified period of 10 consecutive years.

No option may be granted to any employee which, if exercised in full, would result in the total number of shares already issued and issuable to him under the share option scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the share option scheme.

The subscription price for shares under the scheme will be a price determined by the board and notified to each grantee and will be the higher of (i) the closing price of the shares on the date of grant; (ii) average closing prices of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Up to 31 December 2001, no option has been granted to any employee or director of the Company or any of its subsidiaries under this share option scheme.

(b) During the year, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

24. RESERVES

(a) Group

	Share premium RMB'000 (Note (i))	Exchange reserve RMB'000	General reserve RMB'000 (Note (ii))	Enterprise expansion fund RMB'000 (Note (iii))	Retained earnings RMB'000 (Note (iv))	Merger reserve RMB'000	Total RMB'000
At 1 January 2000	33,124	—	5,753	1,541	(671)	23,765	63,512
Profit for the year	—	—	—	—	5,045	—	5,045
Exchange differences on translation	—	23	—	—	—	—	23
Transfer between reserves	—	—	127	—	(127)	—	—
At 31 December 2000	33,124	23	5,880	1,541	4,247	23,765	68,580
At 1 January 2001							
— as previously reported	33,124	23	5,880	1,541	(215)	23,765	64,118
— prior year adjustment in respect of dividend proposed (note 11)	—	—	—	—	4,462	—	4,462
— as restated	33,124	23	5,880	1,541	4,247	23,765	68,580
Dividends approved in respect of the previous year (note 9(b))	—	—	—	—	(4,462)	—	(4,462)
Loss for the year	—	—	—	—	(14,913)	—	(14,913)
Exchange differences on translation	—	(198)	—	—	—	—	(198)
Transfer between reserves	—	—	658	—	(658)	—	—
At 31 December 2001	33,124	(175)	6,538	1,541	(15,786)	23,765	49,007

Included in the figure for the retained earnings is an amount of RMB2,062,000 (2000: RMB1,108,000) being the accumulated losses attributable to associates.

24. RESERVES (Continued)

(b) Company

	Share premium RMB'000 (Note (i))	Retained earnings RMB'000 (Note (iv))	Total RMB'000
At 1 January 2000	33,124	(614)	32,510
Profit for the year	—	4,416	4,416
At 31 December 2000	33,124	3,802	36,926
At 1 January 2001			
— as previously report	33,124	5,732	38,856
— prior year adjustment in respect of			
— dividend proposed (note 11)	—	4,462	4,462
— dividend income (note 11)	—	(6,392)	(6,392)
— as restated	33,124	3,802	36,926
Dividends approved in respect of the previous year (note 9(b))	—	(4,462)	(4,462)
Loss for the year	—	(23,483)	(23,483)
At 31 December 2001	33,124	(24,143)	8,981

Notes:

(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), which provides that the share premium account may be applied in paying distributions or dividends to members, provided immediately following the date on which distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(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' decisions.

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

24. RESERVES (Continued)

(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. No allocation has been made for the years ended 31 December 2001 and 2000.

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*

At 31 December 2001, the Company had accumulated losses of RMB24,143,000 (2000 (restated): retained earnings of RMB3,802,000), and after taking into consideration of the balance of share premium account, subject to the provisions of the Cayman Islands Companies Law as noted in (i) above, the aggregate amount of reserves available for distribution to shareholders of the Company was RMB8,981,000 (2000 (restated): RMB36,926,000).

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating (loss)/profit to net cash inflow/(outflow) from operating activities

	2001 RMB'000	2000 RMB'000
Operating (loss)/profit	(13,080)	8,508
Interest income	(2,523)	(4,269)
Depreciation	2,322	2,604
Loss on disposal of fixed assets	1,480	—
Amortisation of goodwill	262	262
Impairment loss of goodwill	785	—
Gain on sale of investment securities	(58)	—
Provision for diminution on investment securities	1,470	—
Decrease in other non-current asset	800	800
Increase in inventories	(101)	(915)
Decrease/(increase) in trade and other receivables	10,803	(20,933)
Increase/(decrease) in trade and other payables	509	(1,385)
Foreign exchange	(110)	403
Net cash inflow/(outflow) from operating activities	2,559	(14,925)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Purchase of a subsidiary

	2001 RMB'000	2000 RMB'000
Net assets acquired:		
Fixed assets	—	14
Investments securities	—	1,331
Other receivables	—	2
Cash at bank and in hand	—	1,495
Creditors and accrued charges	—	(66)
Minority interests	—	(19)
	—	2,757
Goodwill	—	911
	—	3,668
Satisfied by:		
Cash paid	—	3,668

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of a subsidiary

	2001 RMB'000	2000 RMB'000
Cash consideration	—	3,668
Cash at bank and in hand acquired	—	(1,495)
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	—	2,173

26. COMMITMENTS

(a) Retirement schemes

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

The employees of Ningbo Qianlong Computer Software Company Limited Shanghai branch, Shanghai Qianlong Advanced Technology Company Limited and Worry-free Consulting (Shanghai) Limited are members of a central pension scheme operated by the local government and the subsidiaries are required to contribute approximately 22.5% of the employees' monthly salaries to the central pension scheme to fund the employees' retirement benefits.

The Group 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) On 23 November 2001, a subsidiary of the Group, Shanghai Qianlong Advanced Technology Company Limited ("Shanghai Qianlong"), conditionally entered into an acquisition agreement with a related company which is held by Mr. Chen Shen Tien and Mr. Fan Ping Yi, the executive directors of the Group to purchase a property located in the PRC for a consideration of US$1,080,000. Under the agreement, the legal title of the property will be transferred to Shanghai Qianlong in 2002. As at the balance sheet date, Shanghai Qianlong has paid US$750,000 (RMB6,200,000) for deposits.

(c) At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Within 1 year	3,517	3,577	632	475
After 1 year but within 5 years	3,563	5,015	222	—
After 5 years	16,800	17,600	—	—
	23,880	26,192	854	475

The Group leases a number of properties under operating leases, which run for an initial period of 1 to 30 years, with options to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

27. POST BALANCE SHEET EVENT

On 17 January 2002, the Company has entered into a letter of intent with an independent third party and pursuant to which it granted exclusive rights to the independent third party to enter into an agreement within 80 days from the date of issuance of letter of intent to purchase 2 percent of the Company's shares and up to 49 percent shareholding interest of one of the Company's subsidiaries, Qianlong Computers Company Limited and form a strategic alliance with the Group.

28. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of a change in accounting policy for dividends, details of which are set out in note 11.

29. MATERIAL RELATED PARTY TRANSACTIONS

During the year, a subsidiary entered into an acquisition agreement with a related company to purchase a property in 2002, details of which has been disclosed in note 26(b) above.

30. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2001 to be Willing System Corporation, which is incorporated in the People's Republic of China.

(Expressed in Renminbi)

	2001 RMB'000	2000 RMB'000	1999 RMB'000 (Note (ii))	1998 RMB'000 (Note (ii))
Consolidated income statement				
Turnover	40,640	46,713	33,885	48,364
Cost of sales	(13,733)	(18,005)	(13,841)	(15,458)
	26,907	28,708	20,044	32,906
Other revenue	8,092	7,155	3,141	5,270
Other net losses	(3,677)	—	—	—
Distribution costs	(7,114)	(3,569)	(1,660)	(1,225)
Administrative expenses	(36,245)	(23,294)	(7,642)	(4,753)
Other operating expenses	(1,043)	(492)	(230)	(225)
Share of losses of associates	(954)	(1,108)	—	—
(Loss)/profit from ordinary activities before taxation	(14,034)	7,400	13,653	31,973
Taxation	(881)	(2,355)	(1,687)	(3,530)
(Loss)/profit from ordinary activities after taxation	(14,915)	5,045	11,966	28,443
Minority interests	2	—	—	—
(Loss)/profit attributable to shareholders	(14,913)	5,045	11,966	28,433
Dividends attributable to the year	—	4,462	28,019	51,054
(Loss)/earnings per share — basic	(7.08 cents)	2.40 cents	7.85 cents	18.96 cents

FOUR-YEAR FINANCIAL SUMMARY

(Expressed in Renminbi)

	2001 RMB'000	2000 RMB'000 (Note (i)) (restated)	1999 RMB'000 (Note (ii))	1998 RMB'000 (Note (ii))
Consolidated balance sheet				
Fixed assets	7,308	9,667	9,127	9,454
Other non-current assets	10,322	5,149	1,600	2,400
Current assets	76,244	98,502	98,741	53,820
Current liabilities	(22,431)	(22,299)	(23,536)	(16,571)
Total assets less current liabilities	71,443	91,019	85,932	49,103
Minority interests	(16)	(19)	—	—
Net assets	71,427	91,000	85,932	49,103
Share capital	22,420	22,420	22,420	26,427
Reserves	49,007	68,580	63,512	22,676
Owners' equity	71,427	91,000	85,932	49,103

Notes:

(i) The comparative figures have been adjusted to reflect the retrospective effect of the adoption of SSAP 9 (revised) "Events after the balance sheet date".

(ii) The Company was incorporated in the Cayman Islands on 6 May 1998 under the Cayman Islands Companies Law (Revised) 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 financial statements have been prepared on the basis that the Company was the holding company of the Group for 1998 and 1999 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.

Notice is hereby given that an Annual General Meeting of the Shareholders of Qianlong Technology International Holdings Limited ("the Company") will be held at 204-205 Meeting Room, Hong Kong Convention and Exhibition Centre, Hong Kong, 1, Expo Drive, Wanchai, Hong Kong, on Saturday, 11 May 2002 at 14:00, for the following purpose:

1. To receive and consider the Audited Financial Statements and the reports of the Directors and the Auditors for the year ended 31 December 2001.

2. To approve the payment of a final dividend for the year ended 31 December 2001.

3. To re-elect directors and authorize the board of directors to fix the directors remuneration.

4. To re-appoint auditors and authorize the board of directors to fix the remuneration.

5. By way of special business, to consider and, if thought fit, pass with or without alternations, the following resolutions as ordinary resolution:

(1) "**That:**

(a) subject to paragraph (c) below the exercise by the Directors of the Company during the Relevant Period (as hereafter 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 paragraph (a) above shall authorize 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 shares capital allotted or agreed conditionally or unconditionally to be allotted (where 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 Right Issue; or (ii) the grant or excise of any option under the share option scheme of the Company; or (iii) any scrip divided 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 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 authorized 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 Company 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 a general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

"Right Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for share 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 law of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong)."

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

(c) For the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is 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 a 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. 5(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, Andrew
Secretary

25 March 2002

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The Offices of Maples and Calder
Attorneys-at-law
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British West Indies

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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 to 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 register 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 no. 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.

(d) The register of the Company will be closed from 6 May 2002 to 10 May 2002, both days inclusive, during which period no transfer of Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the branch share register of the Company in Hong Kong, Central Registration Hong Kong Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183, Queen's Road East, Hong Kong, not later than 4:00 pm on 3 May 2002.