



**Qianlong Technology International Holdings Limited**

**乾隆科技國際控股有限公司**

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

**QUARTERLY REPORT**

**2002**

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

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

## HIGHLIGHTS

- Turnover decreased by 13% to approximately RMB25,530 thousand.
- Net loss after taxation was RMB11,313 thousand.
- Basic loss per share was RMB5.38 cents

## QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Qianlong Technology International Holdings Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 30 September 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

### Group Results

		Nine Months Ended		Three Months Ended	
		30 September		30 September	
		2002	2001	2002	2001
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	25,530	29,338	8,068	8,545
Loss from operations	3	(9,577)	(2,984)	(2,303)	(2,758)
Share of loss of associates		(972)	(1,018)	(231)	(503)
Loss before taxation		(10,549)	(4,002)	(2,534)	(3,261)
Taxation	4	(764)	(784)	(219)	(62)
Loss after taxation		(11,313)	(4,786)	(2,753)	(3,323)
Minority interests		(17)	—	1	—
Loss attributable to shareholders		(11,330)	(4,786)	(2,752)	(3,323)
Dividends	5	—	—	—	—
Basic loss per share (RMB cents)	6	(5.38)	(2.27)	(1.30)	(1.57)

## 1. BASIS OF PREPARATION

The principal accounting policies adopted in preparing the Group's unaudited consolidated results conform to accounting principles generally accepted in Hong Kong.

## 2. TURNOVER

The principal activities of the Company and the Group are the development, production and distribution of computer software, the provision of the related maintenance and consulting services, and investment in other IT companies.

Turnover represents the sales value of goods supplied to customers and the maintenance service fees and consulting service fees receivable, net of goods returned, trade discounts 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 respective periods is as follows:

	Nine Months Ended 30 September				Three Months Ended 30 September			
	2002		2001		2002		2001	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sale of computer software	3,949	16	6,845	23	956	12	1,413	17
Maintenance services fees	21,044	82	21,872	75	7,112	88	6,918	81
Consulting service fees	537	2	621	2	—	—	214	2
	<u>25,530</u>	<u>100</u>	<u>29,338</u>	<u>100</u>	<u>8,068</u>	<u>100</u>	<u>8,545</u>	<u>100</u>

## 3. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging restructuring costs. The company implemented a restructure during 2002 and incurred restructuring costs as follows:

	Nine Months Ended 30 September 2002 RMB'000	Three Months Ended 30 September 2002 RMB'000
Loss on disposal of equipment and write off of leasehold improvements	2,632	—
Inventories written off	3,232	—
Redundancy costs	1,054	—
	<u>6,918</u>	<u>—</u>

In May 2002, the Company's board of directors made a decision to stop the provision of consulting services and the production/sale of Intelligent Box II due to the unsatisfactory performance of these sections. As a result, certain fixed assets and inventories have been written down to the estimated net realisable value and redundancy costs have been incurred.

Turnover and loss from the discontinuing consulting services are as follows:

	<b>Nine Months Ended</b>		<b>Three Months Ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	<u>537</u>	<u>621</u>	<u>—</u>	<u>214</u>
Contributions to loss from operations	<u>(2,821)</u>	<u>(5,645)</u>	<u>—</u>	<u>(1,738)</u>

#### 4. TAXATION

	<b>Nine Months Ended</b>		<b>Three Months Ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong	—	—	—	—
PRC	<u>764</u>	<u>784</u>	<u>219</u>	<u>62</u>
	<u>764</u>	<u>784</u>	<u>219</u>	<u>62</u>

No provision for Hong Kong Profits Tax has been made for the periods 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 purpose at the rate applicable to each period.

#### 5. DIVIDENDS

The board of directors does not recommend the payment of any dividend attributable to the nine months ended 30 September 2002 and 2001.

#### 6. BASIC LOSS PER SHARE

	<b>Nine Months Ended</b>		<b>Three Months Ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Loss per share (RMB cents)	<u>(5.38)</u>	<u>(2.27)</u>	<u>(1.30)</u>	<u>(1.57)</u>

The calculation of the basic loss per share for the nine months and three months ended 30 September 2002 is based on the loss attributable to shareholders of RMB11,330 thousand and RMB2,752 thousand respectively divided by the weighted average number of 210,500,000 ordinary shares in issue during the periods.

The calculation of the basic loss per share for the nine months and three months ended 30 September 2001 is based on the loss attributable to shareholders of RMB4,786 thousand and RMB3,323 thousand respectively divided by the weighted average number of 210,500,000 ordinary shares in issue during the periods.

There were no dilutive potential ordinary shares in issue during the nine months ended 30 September 2002 and 2001.

## 7. RESERVES

Other than as disclosed below, there were no movements in reserves of the Group for the relevant periods:

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
(a) Retained earnings		
At 1 January	(15,786)	4,247
Dividends approved in respect of the previous year	—	(4,462)
Loss for the six months ended 30 June	(8,578)	(1,463)
Transfer to general reserve	(140)	—
	<hr/>	<hr/>
At 30 June	(24,504)	(1,678)
Loss for the three months ended 30 September	(2,752)	(3,323)
	<hr/>	<hr/>
At 30 September	<u>(27,256)</u>	<u>(5,001)</u>
(b) General reserve		
At 1 January	6,538	5,880
Transfer from retained earnings	140	—
	<hr/>	<hr/>
At 30 June and September	<u>6,678</u>	<u>5,880</u>
(c) Exchange reserve		
At 1 January	(175)	23
Exchange difference on translation	(28)	(489)
	<hr/>	<hr/>
At 30 June	(203)	(466)
Exchange difference on translation	77	39
	<hr/>	<hr/>
At 30 September	<u>(126)</u>	<u>(427)</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Review

For the nine months ended 30 September 2002, the Group reported a turnover of RMB25,530 thousand representing a decrease of 13 % as compared with that for the same period of the previous year. The sales decrease was due to the 42% sales decline of securities analysis software as a result of the stagnant situation of the stock market in the PRC. Whereas, the Group still generated revenue from maintenance fees of RMB21,044 thousand as well as a gain of RMB3,352 thousand from a disposal of investment project.

On the other side, the Group recorded a net loss after taxation of RMB11,313 thousand for the nine months ended 30 September 2002, whereas a net loss after taxation of RMB4,786 thousand was recorded for the same period of the previous year. The loss for the nine months ended 30 September 2002 was resulted from the following reasons:

- 1) the sales of securities analysis software dropped by 42% due to the stagnation of PRC stock market, while the cost of R & D teams remained fixed;
- 2) restructuring costs of RMB6,918 thousand incurred due to the restructure of the Group, such costs include redundancy costs, loss on disposal of equipment and leasehold improvements, and inventories written off; and
- 3) the loss incurred by the Group's wholly owned subsidiary Worry-Free Taipei Office (started operation in January 2001).

## Operation review

During the nine months period, the Group has maintained stable and good relationships with its existing sales agents around the PRC. The Group has also constantly visited the agents and major securities houses, and provides necessary technical assistance as well as introduces newly launched products to its agents. In addition, an incentive scheme will be offered to those agents who demonstrate good performances.

The Group also launched the upgraded Stand-alone Version Software in the second quarter of 2002, which is for both Windows and DOS systems with more new functions, such as basic company information, economic news, download system, and enhanced technical analysis functions, etc.

The Group launched 3 new products for Network Version of securities analysis software in May 2002: the software which could be automatically shifted between satellite and DDN (Digital Data Network) that are currently the accessible resources for stock market information, so as to avoid information interrupted by resources; the software with expanded capacity that enables securities analysis software called "Internet Winner" which enables securities houses provide securities analysis information to their customers through their own internet websites.

In the third quarter of 2002, the Group launched Information Issuance Software for securities houses to enable real time edit, review and publish of their own information.

The objectives of the research and development team are continuously upgrading its software for DOS system and newly introduced Windows versions. The Group has set up a research and development center in Taipei, Taiwan in the first quarter of 2000, and 4 research professionals were recruited to develop new products. The size of the research team in Taipei was downsized to 2 staff after the Group's restructures in May 2002.

One of the Group's subsidiaries, Chien Long Investment Company Limited, disposed entirely its 4.085% interest in Neocom Technology Information Company Limited in May 2002, and recorded an accounting profit of RMB3,352 thousand from this transaction. The Group originally held 49% interest in an associated company, Arrow Goal Enterprise Corporation ("Arrow Goal"), and invested US\$ 200,000 into Arrow Goal in the second quarter of 2002. The total cost of investment in Arrow Goal amounted to US\$ 440,000 representing a 44.6% interest of Arrow Goal after its expansion of capital base.

## **Prospects**

After cautious review and assessment, the Board made a decision to stop the operation of Worry-Free Consulting (Shanghai) Limited ("Worry-Free Shanghai") and the production/sale of Intelligent Box II in May 2002. At the same time, 75 staff had been laid off. The Group could save approximately RMB5 million personnel cost per year from the restructure exercise, though relevant restructuring costs of approximately RMB6,918 thousand were incurred in 2002. The Group will maintain the competitive strategy to concentrate on core business development, that is to engage mainly in the development, production and sale of securities analysis software. A better financial performance will be expected in the fourth quarter of 2002 through the restructure exercise in the second quarter of 2002.



## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the nine months ended 30 September 2002 neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

### DIRECTORS AND CHIEF EXECUTIVE'S SHARES

As at 30 September 2002, 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 Interest) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Number of shares held	
	Type of interest	Total
Chen Shen Tien	Corporate <i>(Note)</i>	40,250,000
Fan Ping Yi	Corporate <i>(Note)</i>	24,325,000
	Family <i>(Note)</i>	175,000
Yang Ching Shou	Corporate <i>(Note)</i>	24,325,000
	Family <i>(Note)</i>	175,000
Chen Si Yuan	Personal	1,875,000
Du Hao	Personal	1,875,000
Chen Ming Chuan	Corporate <i>(Note)</i>	18,375,000
Yu Shih Pi	Corporate <i>(Note)</i>	14,875,000

*Note:* At 30 September 2002, Mr. Chen Shen Tien is the absolute shareholder of Red Coral Financial Limited holding 40,250,000 shares, representing 19.121% interest in the Company. Mr. Fan Ping Yi and his spouse, Ms Ko Hsiu Fen, are the shareholders of Sapphire World Investment Limited holding 24,325,000 and 175,000 shares respectively, representing 11.556% and 0.083% interests in the Company. Mr. Yang Ching Shou and his spouse, Ms Lai Ying Ming, are the shareholders of Legend Isle Technology Limited holding 24,325,000 and 175,000 shares respectively, representing 11.556% and 0.083% interests in the Company. Mr. Chen Ming Chuan is the absolute shareholder of Star Channel Technology Limited holding 18,375,000 shares, representing 8.729% interest in the Company. Mr. Yu Shih Pi is the absolute shareholder of Star Orient Global Limited holding 14,875,000 shares, representing 7.067% interest in the Company.

## **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES**

Pursuant to a written resolution 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 share which have been fully 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 specific 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 granting; (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 30 September 2002, 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 forgoing, at no time during the period ended 30 September 2002 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 30 September 2002, 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.

<b>Name</b>	<b>Number of the shares held</b>
Red Coral Financial Limited	40,250,000
Sapphire World Investment Limited	24,500,000
Legend Isle Technology Limited	24,500,000

*Note:* At 30 September 2002, Mr. Chen Shen Tien is the absolute shareholder of Red Coral Financial Limited holding 40,250,000 shares, representing 19.121% interest in the Company. Mr. Fan Ping Yi and his spouse, Ms Ko Hsiu Fen, are the shareholders of Sapphire World Investment Limited holding 24,325,000 and 175,000 shares respectively, representing 11.556% and 0.083% interests in the Company. Mr. Yang Ching Shou and his spouse, Ms Lai Ying Ming, are the shareholders of Legend Isle Technology Limited holding 24,325,000 and 175,000 shares respectively, representing 11.556% and 0.083% interests in the Company.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Pursuant to an agreement dated 22 September 1999 made between the Company and the Company's previous holding company, Willing Systems Corporation ("Willing"), Willing 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 normal consideration of USD1. On 23 September 1999 the Company entered into another agreement with Willing pursuant to which the Company licensed the use of the service mark in the ROC exclusively to the ultimate holding company for a normal consideration of USD1 for a period from September 1999 to November 2007.

Willing ceased to be the holding company of the Company on 1 August 2002 after the disposal of the Company's shares by Willing's subsidiary as disclosed in the Company's announcement dated 1 August 2002.

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. The above transaction was completed on 23 April 2002.

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 any time during the period of nine months ended 30 September 2002.

## **SPONSOR'S INTERESTS**

CSC Asia Limited has been appointed as the Company's Sponsor since January 2002.

As at 30 September 2002, neither CSC Asia Limited nor its directors, employees or associates have any interest in the share capital of the Company.

Pursuant to the Agreement dated 19 October 2001 entered between the Company and CSC Asia Limited, CSC Asia Limited has received and will receive a fee for acting as the Company's sponsor for the period from 1 January 2002 to 31 December 2003.

## **AUDIT COMMITTEE**

The Group has established an audit committee in 1999. The current committee members comprising 3 members of Mr. Chen Shen Tien, Ms. Chiu Kam Hing, Kathy, and Mr. Hsu Wen Huei. Mr. Yu Chi Chen, Franklin has resigned as the committee member and Mr Hsu Wen Huei has been appointed as the committee member with effective on 6 November 2002. The committee has constantly made its duties to review and supervise the financial reporting process and internal control system of the Group, and to provide advice and comments to the board of directors of the Company.

## **COMPLIANCE WITH THE RULES OF 5.28 TO 5.39 OF GEM LISTING RULES**

The Company has complied throughout the nine-month period ended 30 September 2002 with the Rules of 5.28 to 5.39 (if applicable) of GEM Listing Rules as set out by the Stock Exchange of Hong Kong Limited.

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

12 November 2002