ANNUAL REPORT 2002-2003

QIANLONG TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "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 announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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 GEM of the Exchange 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
Yang Ching Shou, Peter
Du Hao (resigned on 1 January 2003)
Chen Si Yuan (resigned on 1 January 2003)

NON-EXECUTIVE DIRECTORS
Chen Ming Chuan (appointed as executive director on 1 January 2003)
Yu Shih Pi (appointed as executive director on 1 January 2003)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chiu Kam Hing, Kathy
Hsu Wen Huei

SECRETARY
Chan Yik Wang, Andrew

QUALIFIED ACCOUNTANT
Ip Pui Lam, Arthur

AUTHORISED REPRESENTATIVES
Chan Yik Wang, Andrew
Chen Si Yuan

SPONSOR
CSC Asia Limited

COMPLIANCE OFFICER
Fan Ping Yi

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

In Hong Kong:
The Hong Kong and Shanghai Banking Corporation, Limited
Shanghai Commercial Bank Limited

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

AUDIT COMMITTEE
Ms. Chiu Kam Hing, Kathy
Mr. Hsu Wen Huei
Mr. Chen Shen Tien

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
Computershare Hong Kong Investor Services 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

PLACE AND DATE OF LISTING, NAME AND CODE OF ITS STOCKS
The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
Listing Date: 17 December 1999
Stock Name: Qianlong Technology
Stock Code: 8015

Financial Summary

GROUP RESULTS

	2002 RMB'000	2001 RMB'000
Turnover	**33,248**	40,640
Loss from ordinary activities before taxation	**(14,028)**	(14,034)
Taxation	**(830)**	(881)
Loss from ordinary activities after taxation	**(14,858)**	(14,915)
Minority interests	**(21)**	2
Loss attributable to shareholders	**(14,879)**	(14,913)
Loss per share - basic	**(7.07 cents)**	(7.08 cents)

GROUP ASSETS AND LIABILITIES

	2002 RMB'000	2001 RMB'000
Fixed assets	**11,312**	7,308
Other non-current assets	**7,388**	10,322
	18,700	17,630
Current assets		
Inventories	**197**	1,665
Investments in securities	**13,024**	—
Trade and other receivables	**4,858**	13,899
Cash and cash equivalents	**39,818**	60,680
	57,897	76,244
Current liabilities		
Trade and other payables	**19,885**	22,332
Tax payable	**128**	99
	20,013	22,431
Net current assets	**37,884**	53,813
Minority interests	**37**	16
Net assets	**56,547**	71,427
Share capital	**22,420**	22,420
Reserves	**34,127**	49,007
	56,547	71,427

Chairman's Statement

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 2002.

GROUP RESULTS

For the year ended 31 December 2002, the Group reported a turnover of RMB33,248,000 representing a decrease of 18% as compared with that for the same period of the previous year. The audited loss attributable to the shareholders is recorded at RMB14,879,000, representing a decrease of RMB34,000 as compared with that for the same period of the previous year. The basic loss per share is calculated at RMB7.07 cents.

DIVIDENDS

The board of directors does not recommend the payment of any dividend attributable to the year of 2002.

BACKGROUND

The year 2002 is a challenging year for the Group: the world economy is in recession, the stock market is bearish in the People's Republic of China (the "PRC") since the year of 2001, the competition in securities analysis software is 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. We believe the worst year is over, and the Group will try its best efforts to adjust strategies and improve performance in next year.

BUSINESS REVIEW

For the year ended 31 December 2002, the Group reported a turnover of RMB33,248,000 representing a decrease of 18% as compared with that of the previous year. The decrease was due to the 63% sales decline of securities analysis software as a result of the stagnant stock market in the PRC. Whereas, the Group still achieved a stable growth in maintenance service fees in 2002.

On the other side, the Group recorded a net loss attributable to shareholders of RMB14,879,000 in 2002, whereas a net loss attributable to shareholders of RMB14,913,000 was recorded in the previous year. The loss in 2002 was resulted from the following reasons:

1) the sales of securities analysis software dropped due to the stagnation of PRC stock market , while the cost of R & D teams remained stable;

2) restructuring costs of RMB6,918,000 incurred due to the restructure of the Group, such costs include redundancy costs, loss on disposal of fixed assets, and inventories written off; and

3) share of losses of associates of RMB1,233,000, which is mainly contributed by Arrow Goal Enterprises Corporation ("Arrow Goal") and provision for diminution in value of investment securities of RMB2,833,000 incurred for the current year.

PROSPECTS

In spite of the unsatisfactory performance for 2002, with its renowned brand name, solid business base in the PRC through years of efforts, 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 the year of 2003:

1) Upgrade the network version of securities analysis software and develop new products such as securities choice server, online securities transaction system, securities brokers system, messages system, data service, to keep the leading and strengthen the traditional advantages and competitive edges in the market.

2) In order to achieve the leading position and broaden the range of product selections, customer analysis software of various versions such as the Professional Version, the Classical Version, the Genius Version, the JAVA Version will be further developed to meet different user requirements.

3) Provide enterprises customers with all around services ranging from maintenance, training, to tailor made products through the newly established customer service center.

The directors believe the Group's performance will improve and the prospect for the Group is positive in 2003.

PRODUCT DEVELOPMENT

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

The Group launched three new products for Network Version of securities analysis software in May 2002: (i) software 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; (ii) a software with expanded capacity that enables securities houses to serve more customers; and (iii) the internet version of securities analysis software called "Internet Winner" which enables securities houses to provide securities analysis information to their customers through their own internet websites.

In the second half year of 2002, the Group launched an Information Issuance software for securities houses to enable real time edit, review and publish of their own information.

RESEARCH AND DEVELOPMENT

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 reduced to 2 staff at 31 December 2002.

CONCLUDING REMARKS

The difficult year of 2002 has ended. I believe in the new year the results of the Group will be greatly improved through the restructure exercise in 2002. Finally, on behalf of the board, I would like to express my heartfelt gratitude to all staff of the Group for their hard work as well as to all shareholders for their kind support over the previous year.

Chen Shen Tien
Chairman

Hong Kong, 25 March 2003

Management's Discussion and Analysis

1. TURNOVER

Network Version

A majority of the Group's Network Version business is derived from securities houses across the PRC. Because of the stagnant PRC stock market in 2002, the Group's turnover of Network Version recorded a decrease of 60% from RMB9,719,000 in 2001 to RMB3,905,000 in 2002.

Stand-alone Version

The Stand-alone Version sales suffered a drop of around 75% in 2002, as a result of the stagnation of the stock market in the PRC and the tough price competition of the industry.

Maintenance Service Fee

Maintenance service fee in 2002 mildly grew by 2% to reach RMB28,034,000 primarily attributable to the accumulated number of users of Network Version. Maintenance service fee has remained the major and stable revenue contributor to the Group, and kept steady yearly growth over the past years.

Consulting Service Fee

The consulting service fee in 2002 decreased from RMB397,000 in 2001 to RMB140,000 owing to the discontinuing operation of Worry-free Consulting (Shanghai) Limited ("Worry-free Shanghai") decided by the board in May 2002.

2. ADMINISTRATIVE AND OTHER EXPENSES

The Group's administrative and other expenses decreased from RMB44,402,000 in 2001 to RMB37,182,000 in 2002, mainly due to the restructure of the Group including the discontinuance of operation of Worry-free Shanghai and the cease of production line in relation to Intelligent Box II.

3. DEPLOYMENT OF HUMAN RESOURSES

The total number of staff of the Group reduced from 164 as at 31 December 2001 to 100 as at 31 December 2002 due to the restructure conducted for the current year, so that the cost for deployment of human resources has dropped accordingly. The Group offers a remuneration package by reference to prevailing market conditions and performance, qualifications and experience of individual employees. Other benefits for employees include a retirement benefit, provident fund and a medical plan. In the year, the total cost for staff (including salary, bonus and other welfare) is approximately RMB14,155,000 (2001: RMB19,528,000).

4. SALE OF INVESTMENT

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 RMB3,274,000 from this transaction.

5. ADDITIONAL INVESTMENT

The Group originally held 49% interest in an associated company, 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 42.2% interest of Arrow Goal after its expansion of capital base.

6. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2002 and 2001.

7. RESTRUCTURE OF THE GROUP

After cautious review and assessment, the board made a decision to stop the operation of 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 RMB6,918,000 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 year of 2003.

8. FINANCIAL RESOURCES, LIQUIDITY AND TREASURY POLICIES

Cash and bank balance of the Group as at 31 December 2002 were RMB39,818,000 equivalent, representing funds generated from the Group's operation. The Group had a working capital ratio of approximately 2.9 :1.

9. GEARING RATIO

Ever since its establishment, the Group has neither made any loan arrangements with nor obtained any credit facilities from any financial institutions. Therefore, the gearing ratio of the Group, which is net borrowings over shareholders' funds, has remained zero. At the same time, the Group's assets have never been subject to any charges or mortgages.

10. EXPOSURE ON EXCHANGE RATE FLUCTUATION

Most of the income and expenditure of the Group were denominated either in RMB or Hong Kong dollars. In view of the stability of the exchange rate between these two currencies, the Group has not been subject to exchange rate fluctuation exposure and thus no financial instruments have been adopted for hedging purposes.

Profiles of the Group

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. The company remained dormant during the year.

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. The company remained dormant during the year.

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

Arrow Goal Enterprises Corporation

Arrow Goal Enterprises Corporation was established in British Virgin Islands in November 2000, and is 42.2% 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 business consulting, training, and human resource services.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Shen Tien, aged 45, 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 8 years experience in the IT industry.

Mr. Fan Ping Yi, aged 44, 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 18 years of experience in the IT industry. Before joining the Group, Mr. Fan held senior management positions in various software houses in Taiwan.

Mr. Yang Ching Shou, Peter, aged 44, is the president of Shanghai Qianlong Advanced Technology Company Limited. He is one of the founders of the Group. He is responsible for the Group's overall strategic planning and its implementation. Mr. Yang has over 18 years of experience in the IT industry. Before joining the Group, Mr. Yang held senior management positions in various computer companies in Taiwan. He is the managing director of the Group since 1 January 2003.

Mr. Du Hao, aged 34, is an executive director of the Group and the 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 9 years of product research and development experience. He holds a master of science degree in electronic engineering from Fudan University. He resigned on 1 January 2003.

Mr. Chen Si Yuan, aged 40, 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 8 years of product research and development experience. He holds a master degree in electronic engineering from Fudan University. He resigned on 1 January 2003.

NON-EXECUTIVE DIRECTORS

Mr. Chen Ming Chuan, aged 38, is the vice-president of research and development department in Willing of Taiwan. Mr. Chen has engaged in the IT industry over 18 years with intensive experience in development of securities analysis software. He resigned as non-executive director and was appointed as executive director on 1 January 2003.

Mr. Yu Shih Pi, aged 40, 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. He resigned as non-executive director and was appointed as executive director on 1 January 2003.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chiu Kam Hing, Kathy, aged 54, has over 31 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.

Mr. Hsu Wen Huei, aged 44, is the vice-president of Taiwan Computer Association (the "TCA") since 1993. The TCA is the organiser of Computex in Taipei, one of the big three IT exhibition in the world. Mr. Hsu has over 20 years of experience in IT industry in Taiwan and held a bachelor degree in communication management of Jiaotung University in Hsinchu, Taiwan.

SENIOR MANAGEMENT

Mr. Song Li Qun, aged 35, is the deputy general manager 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 8 years of experience in the IT industry.

Mr. Zhou Xiang, aged 32, is the manager of technology and R & D department 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 8 years of experience in the IT industry.

Mr. Chen Wei Ping, aged 45, is the manager of administration department of Shanghai Qianlong Advanced Technology Company Limited responsible for the general administration. He joined the Group in 1994 and has 10 years of experience in general administration.

Mr. Zhao Bing, aged 37, is the manager of sales and marketing management department of Shanghai Qianlong Advanced Technology Company Limited responsible for sales and marketing planning of the Group. He joined the Group in 1994 and has over 5 years of experience in sales and marketing planning. He holds a master degree in marketing management in Jiaotong University.

Mr. Chen Gang Liang, aged 30, is the manager of customers service department of Shanghai Qianlong Advanced Technology Company Limited responsible for the provision of service to all of the customers. He holds a degree in Shanghai University and has more than 5 years of after sales experience.

Profiles of Directors and Senior Management

QUALIFIED ACCOUNTANT

Mr. Ip Pui Lam, Arthur, aged 41, 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.

COMPANY SECRETARY

Mr. Chan Yik Wang, Andrew, aged 41, is the company secretary of the Group. He joined the Group in 1999. He holds a bachelor's degree in laws from the University of East Anglia of England and is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Chan is a qualified solicitor with over 11 years of experience in law practice.

COMPLIANCE OFFICER

Mr. Fan Ping Yi, aged 44, is the vice-chairman and an executive director of the Group. He is responsible for the Group's overall strategic planning and implementation. Mr. Fan held senior management positions in various software houses in Taiwan and has over 18 years of experience in the IT industry. Being a compliance officer, Mr. Fan will be advising on and assisting the Board of Director in implementing procedures to ensure that the Group complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responding promptly and efficiently to all enquiries directed at him by the Stock Exchange.

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the development, production and distribution of computer 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 13 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 ("PRC").

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	Purchases
The largest customer	3%	
Five largest customers in aggregate	10%	
The largest supplier		27%
Five largest suppliers in aggregate		76%

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 2002 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 22 to 61.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2002 (2001: RMB Nil).

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to RMB80,000 (2001: RMB320,000).

FIXED ASSETS

During the year, the Group acquired a property for approximately RMB9.3 million. Details of the acquisition and other movements in fixed assets of the Group and the Company during the year are set out in note 14 on the financial statements.

Report of the Directors

SHARE CAPITAL

Details of the Company's share capital are set out in note 22 on the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2002 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 23 on the financial statements.

DIRECTORS

The directors of the Company during the financial year and up to the date of this report were:

Executive directors

Chen Shen Tien	*(Chairman)*
Fan Ping Yi	*(Vice chairman)*
Yang Ching Shou, Peter	(appointed as executive director on 1 March 2002 and managing director on 1 January 2003)
Wang Chen Yu, Cycle	(resigned on 15 June 2002)
Du Hao	(resigned on 1 January 2003)
Chen Si Yuan	(resigned and appointed on 1 February and 15 June 2002, resigned on 1 January 2003)
Chen Ming Chuan	(resigned as non-executive director and appointed as executive director on 1 January 2003)
Yu Shih Pi	(resigned as non-executive director and appointed as executive director on 1 January 2003)

Independent non-executive directors

Chiu Kam Hing, Kathy	
Hsu Wen Huei	(appointed on 6 November 2002)
Yu Chi Chen, Franklin	(resigned on 6 November 2002)

In accordance with article 116 of the Company's Articles of Association, Mr Chen Shen Tien and Fan Ping Yi 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 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 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 Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Type of interests		Number of shares held
Chen Shen Tien	Corporate	*(note (i) and (ii))*	40,250,000
Fan Ping Yi	Corporate	*(note (i) and (ii))*	24,500,000
Yang Ching Shou, Peter	Corporate	*(note (i) and (ii))*	24,500,000
Chen Si Yuan	Personal		1,875,000
Du Hao	Personal		1,875,000
Chen Ming Chuan	Corporate	*(note (i))*	18,375,000
Yu Shih Pi	Corporate	*(note (i))*	14,875,000

Notes:

(i) As at 31 December 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 24,500,000 shares, representing 11.639% interest in the Company. Mr Yang Ching Shou, Peter and his spouse, Ms Lai Ying Ming, are the shareholders of Legend Isle Technology Limited holding 24,500,000 shares, representing 11.639% interest 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.

(ii) 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 these interests, being 10% or more in the issued share capital of 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 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 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 any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to an agreement dated 22 September 1999 made between the Company and the Company's previous ultimate holding company, Willing System Corporation, the previous 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 US$1. On 23 September 1999 the Company entered into another agreement with the previous ultimate holding company pursuant to which the Company licensed the use of the service mark in the ROC exclusively to the previous ultimate holding company for a nominal consideration of US$1 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 (RMB9,257,000). The transaction was completed during the year and the legal title of the property was transferred to Shanghai Qianlong on 30 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, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

SPONSOR'S INTERESTS

CSC Asia Limited ("CSC") has been appointed as the Company's sponsor since January 2002.

As at 31 December 2002, neither CSC 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 into between the Company and CSC, CSC has received and will receive a fee for acting as the Company's retained sponsor for the period from 1 January 2002 to 31 December 2003.

AUDIT COMMITTEE

The Group has established an audit committee in 1999 in compliance with the requirement as set out in Rule 5.23 and 5.24 of the GEM Listing Rules. The current committee 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 on 6 November 2002. The committee held one meeting during the year and 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.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 62 to 63 of the annual report.

PROPERTIES

Major property held for investment

Location	Existing use	Term of lease
669, Beijing Xi Road, Shanghai, PRC	Office	Medium

RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in note 24(a) on the financial statements.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year with the board practices and procedures in Rules 5.28 to 5.39 of 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 2003

Report of the Auditors

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 22 to 61 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 2002 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 2003

Consolidated Income Statement

For the year ended 31 December 2002

	Note	**2002** **RMB'000**	2001 RMB'000
Turnover	2	**33,248**	40,640
Cost of sales		**(13,564)**	(13,733)
Gross profit		**19,684**	26,907
Other revenue	3	**5,589**	8,092
Other net losses	3	**(886)**	(3,677)
Distribution costs		**(6,965)**	(7,114)
Administrative expenses		**(22,758)**	(36,245)
Restructuring costs	5	**(6,918)**	—
Other operating expenses		**(541)**	(1,043)
Loss from operations		**(12,795)**	(13,080)
Share of losses of associates		**(1,233)**	(954)
Loss from ordinary activities before taxation	6	**(14,028)**	(14,034)
Taxation	7(a)	**(830)**	(881)
Loss from ordinary activities after taxation		**(14,858)**	(14,915)
Minority interests		**(21)**	2
Loss attributable to shareholders	10	**(14,879)**	(14,913)
Loss per share – basic	12	**(7.07 cents)**	(7.08 cents)

The notes on pages 28 to 61 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2002

	Note	2002 RMB'000	2002 RMB'000	2001 RMB'000	2001 RMB'000
Non-current assets					
Fixed assets	14(a)		**11,312**		7,308
Interest in associates	16		**1,413**		991
Investments in securities	17(a)		**5,975**		9,331
			18,700		17,630
Current assets					
Inventories	18	**197**		1,665	
Investments in securities	17(b)	**13,024**		—	
Trade and other receivables	19	**4,858**		13,899	
Cash and cash equivalents	20	**39,818**		60,680	
		57,897		76,244	
Current liabilities					
Trade and other payables	21	**19,885**		22,332	
Tax payable	7(b)	**128**		99	
		20,013		22,431	
Net current assets			**37,884**		53,813
Total assets less current liabilities			**56,584**		71,443
Minority interests			**37**		16
Net assets			**56,547**		71,427
Capital and reserves					
Share capital	22		**22,420**		22,420
Reserves	23(a)		**34,127**		49,007
			56,547		71,427

Approved and authorised for issue by the board of directors on 25 March 2003

Chen Shen Tien
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 28 to 61 form part of these financial statements.

Balance Sheet

At 31 December 2002

	Note	2002 RMB'000	2002 RMB'000	2001 RMB'000	2001 RMB'000
Non-current assets					
Fixed assets	14(b)		**30**		135
Interest in subsidiaries	15		**21,791**		25,685
			21,821		25,820
Current assets					
Trade and other receivables	19	**94**		312	
Cash and cash equivalents	20	**4,127**		28,942	
		4,221		29,254	
Current liabilities					
Trade and other payables	21	**1,263**		2,003	
Amounts due to subsidiaries		**238**		21,670	
		1,501		23,673	
Net current assets			**2,720**		5,581
Net assets			**24,541**		31,401
Capital and reserves					
Share capital	22		**22,420**		22,420
Reserves	23(b)		**2,121**		8,981
			24,541		31,401

Approved and authorised for issue by the board of directors on 25 March 2003

Chen Shen Tien
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 28 to 61 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Shareholders' equity at 1 January		**71,427**	91,000
Exchange differences on translation of the financial statements of foreign entities	23(a)	**(1)**	(198)
Net loss not recognised in the income statement		**(1)**	(198)
Net loss for the year	23(a)	**(14,879)**	(14,913)
Dividends approved during the year	11(b)	**—**	(4,462)
Shareholders' equity at 31 December		**56,547**	71,427

The notes on pages 28 to 61 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Operating activities			
Loss from ordinary activities before taxation		**(14,028)**	(14,034)
Adjustments for:			
— Depreciation		**1,679**	2,322
— Amortisation of goodwill		**—**	262
— Impairment loss of goodwill		**—**	785
— Deficit on revaluation of an investment property		**240**	—
— Gain on sale of investment securities		**(3,274)**	(58)
— Provision for diminution in value of investment securities		**2,833**	1,470
— Interest income		**(687)**	(2,523)
— Share of losses of associates		**1,233**	954
— Loss on disposal of fixed assets		**3,719**	1,480
— Foreign exchange gain		**(1)**	(110)
Operating loss before changes in working capital		**(8,286)**	(9,452)
Decrease in other non-current asset		**—**	800
Decrease/(increase) in inventories		**1,468**	(101)
Decrease in trade and other receivables		**2,834**	10,803
(Decrease)/increase in trade and other payable		**(2,447)**	509
Cash (used in)/generated from operations		**(6,431)**	2,559
Interest received		**687**	2,523
Tax paid			
— PRC tax paid		**(801)**	(1,258)
Net cash (used in)/from operating activities		**(6,545)**	3,824

Consolidated Cash Flow Statement

For the year ended 31 December 2002 (Continued)

	Note	**2002** **RMB'000**	2001 RMB'000
Investing activities			
Payment for purchase of fixed assets		**(3,993)**	(1,800)
Proceeds from sales of fixed assets		**558**	347
Payment for purchase of interest in associates		**(1,655)**	—
Payment for purchase of unlisted equity securities		**(13,024)**	(9,917)
Proceeds from sale of unlisted equity securities		**3,797**	452
Proceeds from sale of held-to-maturity securities		**—**	6,000
Net cash used in investing activities		**(14,317)**	(4,918)
Financing activities			
Dividends paid		**—**	(4,462)
Net cash used in financing activities		**—**	(4,462)
Net decrease in cash and cash equivalents		**(20,862)**	(5,556)
Cash and cash equivalents at 1 January		**60,680**	66,236
Cash and cash equivalents at 31 December	20	**39,818**	60,680

Included in the above amounts are the following net cash flows related to discontinuing operations for the year ended 31 December 2002:

	2002 **RMB'000**	2001 RMB'000
Cash flows from operating activities	**(1,711)**	(4,812)
Cash flows from investing activities	**471**	(855)

The notes on pages 28 to 61 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 modified by the revaluation of investment properties as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a controlled 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)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

An associate is an entity in which the Group or 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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 carried in the balance sheets on the following bases:

— investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and

— other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, or the portfolio of investment properties, immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, or the portfolio of investment properties, had previously been charged to the income statement.

(iii) 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.

(iv) 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. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives as follows:

— 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; and

— 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 to 5 years
Furniture, fixtures and office equipment	—	3 to 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:

— fixed assets (other than properties carried at revalued amounts);

— interest 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories (Continued)

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 and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(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) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) 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 is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Maintenance service fee income

Maintenance service fee is billed in advance and is 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 reference 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 by reference to the principal outstanding and the rate applicable.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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. Exchange gains and losses are dealt with in the income statement.

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

(p) 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.

(q) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits

(i) Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) 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 as incurred.

(s) 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.

(t) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purposes of these financial statements.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting (Continued)

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.

(u) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

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 PRC. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	RMB'000	RMB'000
Maintenance service fees	**28,034**	27,464
Sale of computer software	**4,576**	12,514
Consulting service fees	**140**	397
Others	**498**	265
	33,248	40,640

3 OTHER REVENUE AND NET LOSSES

	2002 RMB'000	2001 RMB'000
Other revenue		
Value added tax refund (note)	**4,493**	5,133
Interest income	**687**	2,523
Tax refund for re-investment in the PRC	**—**	143
Miscellaneous	**409**	293
	5,589	8,092
Other net losses		
Gain on sale of investment securities	**3,274**	58
Loss on disposal of fixed assets	**(1,087)**	(1,480)
Provision for diminution in value of investment securities	**(2,833)**	(1,470)
Deficit on revaluation of an investment property	**(240)**	—
Impairment loss of goodwill	**—**	(785)
	(886)	(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 DISCONTINUING OPERATIONS

After cautious review and assessment, the Group made a decision to terminate the operation of a subsidiary, Worry-free Consulting (Shanghai) Limited on 11 May 2002. A restructuring cost of RMB360,000 (note 5) were recognised in the consolidated income statement for the year ended 31 December 2002.

The results of the discontinuing operations for the current and previous period were as follows:

	11/5/2002	31/12/2001
	RMB'000	RMB'000
Turnover	**140**	397
Cost of sales	**—**	(6)
Gross profit	**140**	391
Other revenue	**15**	42
Other net losses	**(770)**	—
Administrative expenses	**(1,935)**	(5,664)
Restructuring costs	**(360)**	—
Other operating expenses	**—**	(960)
Loss from ordinary activities before taxation	**(2,910)**	(6,191)
Taxation	**—**	—
Loss from ordinary activities after taxation	**(2,910)**	(6,191)

The net assets of the discontinuing operations as at the date of discontinuance and 31 December 2001 were as follows:

	11/5/2002	31/12/2001
	RMB'000	RMB'000
Total assets	**123**	1,982
Total liabilities	**—**	(476)
Net assets and loss on disposal of discontinuing operation	**123**	1,506

5 RESTRUCTURING COSTS

The Group implemented a restructure during the year and incurred restructuring costs as follows:

	Continuing operations RMB'000	Discontinuing operations RMB'000	Total RMB'000
Loss on disposal of fixed assets	2,509	123	2,632
Inventories written off	3,232	—	3,232
Redundancy payment	817	237	1,054
	6,558	360	6,918

6 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging:

	2002 RMB'000	2001 RMB'000
(a) Staff costs:		
Contributions to defined contribution plan	**1,627**	1,847
Salaries, wages and other benefits	**12,528**	17,681
	14,155	19,528
(b) Other items:		
Cost of inventories	**1,656**	1,698
Amortisation of goodwill	**—**	262
Maintenance service expenses	**11,908**	10,770
Research and development costs	**2,755**	3,478
Depreciation	**1,679**	2,322
Operating lease charges — properties	**3,497**	4,626
Auditors' remuneration		
— provision for the year	**761**	852
— under-provision for previous year	**—**	26

7 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 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.

8 DIRECTORS' REMUNERATION

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

	2002	2001
	RMB'000	RMB'000
Directors' fees	**414**	414
Salaries and other emoluments	**2,964**	3,443
Retirement scheme contributions	**68**	53
	3,446	3,910

8 DIRECTORS' REMUNERATION *(Continued)*

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

	2002	2001
	RMB'000	RMB'000
Executive directors	**398**	1,265
	449	448
	419	420
	413	413
	420	413
	345	—
Non-executive directors	**294**	330
	294	207
Independent non-executive directors	**207**	207
	175	207
	32	—
	3,446	3,910

The executive directors have entered into a service contract with the Company for a term of two years and these contracts shall continue thereafter until terminated by either party giving to the other at least three months' prior notice in writing. Messrs Wang Chen Yu, Cycle terminated his contract during the year. 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.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2001: one) are directors whose emoluments are disclosed in note 8 above. The aggregate of the emoluments in respect of the other four individuals in 2001 were as follows:

	2002	2001
	RMB'000	RMB'000
Salaries and other emoluments	**—**	3,177
Retirement scheme contributions	**—**	17
	—	3,194

The emoluments of the four individuals in 2001 with the highest emoluments were within the following bands:

	2002	2001
	Number of individuals	Number of individuals
HK$Nil–HK$1,000,000	**—**	3
HK$1,000,001–HK$1,500,000	**—**	1

10 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of RMB6,860,000 (2001: RMB23,483,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

(a) The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2002 (2001: RMB Nil).

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

	2002	2001
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB Nil per share (2001: RMB2.12 cents)	**—**	4,462

12 LOSS PER SHARE — BASIC

The calculation of basic loss per share is based on the loss attributable to shareholders of RMB14,879,000 (2001: RMB14,913,000) and 210,500,000 ordinary shares (2001: 210,500,000) in issue during the year.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2002 and 2001.

13 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.

13 SEGMENT REPORTING *(Continued)*

	Distribution of computer software		Discontinuing operations Provision of consulting service		Others		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**32,610**	39,978	**140**	397	**498**	265	**33,248**	40,640
Other revenue	**5,146**	6,472	**15**	42	**428**	1,578	**5,589**	8,092
External revenue	**37,756**	46,450	**155**	439	**926**	1,843	**38,837**	48,732
Contribution from operations	**6,043**	12,149	**(2,550)**	(6,191)	**(979)**	(660)	**2,514**	5,298
Restructuring costs	**(6,558)**	—	**(360)**	—	**—**	—	**(6,918)**	—
Unallocated operating income and expenses							**(8,391)**	(18,378)
Loss from operations							**(12,795)**	(13,080)
Share of losses of associates	**(1,214)**	(812)	**—**	—	**(19)**	(142)	**(1,233)**	(954)
Taxation							**(830)**	(881)
Minority interests							**(21)**	2
Loss attributable to shareholders							**(14,879)**	(14,913)
Depreciation and amortisation for the year	**1,420**	1,673	**152**	537	**21**	—		
Impairment loss for the year	**—**	—	**—**	—	**—**	785		

13 SEGMENT REPORTING *(Continued)*

	Distribution of computer software		Discontinuing operations Provision of consulting service		Others		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**15,233**	20,254	**—**	1,982	**299**	70	**15,532**	22,306
Interest in associates	**983**	542	**—**	—	**430**	449	**1,413**	991
Unallocated assets							**59,652**	70,577
Total assets							**76,597**	93,874
Segment liabilities	**18,314**	19,767	**—**	476	**300**	6	**18,614**	20,249
Unallocated liabilities							**1,399**	2,182
Total liabilities							**20,013**	22,431
Capital expenditure incurred during the year	**9,797**	882	**395**	918	**—**	—		

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.

14 FIXED ASSETS

(a) Group

	Buildings RMB'000	Leasehold improvements RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Sub-total RMB'000	Investment property RMB'000	Total RMB'000
Cost or valuation:								
At 1 January 2002	137	6,328	3,768	2,554	2,118	14,905	—	14,905
Additions	—	336	50	179	378	943	9,257	10,200
Disposals	—	(6,023)	(1,716)	(1,670)	(1,410)	(10,819)	—	(10,819)
Deficit on revaluation	—	—	—	—	—	—	(240)	(240)
At 31 December 2002	137	641	2,102	1,063	1,086	5,029	9,017	14,046
Accumulated depreciation:								
At 1 January 2002	37	2,970	1,767	1,568	1,255	7,597	—	7,597
Charge for the year	6	471	507	405	290	1,679	—	1,679
Written back on disposals	—	(2,819)	(1,298)	(1,344)	(1,081)	(6,542)	—	(6,542)
At 31 December 2002	43	622	976	629	464	2,734	—	2,734
Net book value:								
At 31 December 2002	94	19	1,126	434	622	2,295	9,017	11,312
At 31 December 2001	100	3,358	2,001	986	863	7,308	—	7,308
Representing:								
Cost	137	641	2,102	1,063	1,086	5,029	—	5,029
Valuation — 2002	—	—	—	—	—	—	9,017	9,017
	137	641	2,102	1,063	1,086	5,029	9,017	14,046

14 FIXED ASSETS *(Continued)*

(b) Company

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:			
At 1 January 2002	216	117	333
Disposals	(1)	(6)	(7)
At 31 December 2002	215	111	326
Accumulated depreciation:			
At 1 January 2002	120	78	198
Charge for the year	69	36	105
Written back on disposals	(1)	(6)	(7)
At 31 December 2002	188	108	296
Net book value:			
At 31 December 2002	27	3	30
At 31 December 2001	96	39	135

(c) The analysis of net book value of properties is as follows:

	2002 RMB'000	2001 RMB'000
In PRC		
Medium-term leases	**9,111**	100

(d) Investment property of the Group was revalued at 31 December 2002 by Shanghai Sema Appraisal Company Limited, an independent valuer registered in the PRC, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The revaluation deficit of RMB240,000 has been charged to income statement (note 3).

14 FIXED ASSETS *(Continued)*

(e) The Group leases out investment property under an operating lease commencing in December 2002. The leases typically run for an initial period of five years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment property of the Group held for use in operating leases were RMB9,017,000 (2001: RMB Nil).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2002	2001
	RMB'000	RMB'000
Within 1 year	**671**	—
After 1 year but within 5 years	**2,927**	—
After 5 years	**61**	—
	3,659	—

15 INTEREST IN SUBSIDIARIES

	Company	
	2002	2001
	RMB'000	RMB'000
Unlisted shares, at cost	**7,192**	7,192
Amounts due from subsidiaries	**36,103**	34,524
Less: Impairment loss	**(21,504)**	(16,031)
	21,791	25,685

15 INTEREST IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries at 31 December 2002 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.

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	PRC (Wholly foreign-owned enterprise)	—	100	US$210,000	Dormant
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	Dormant
Qianlong Internet Holdings Limited	BVI (Limited company)	100	—	US$50,000	Investment holding
Chien Long Investment Company Limited	The Republic of China ("ROC") (Limited company)	—	99.3	NTD7,338,010	Investment holding

16 INTEREST IN ASSOCIATES

	Group 2002 RMB'000	2001 RMB'000
Share of net assets	**1,413**	991
Goodwill	**398**	398
Accumulated amortisation of goodwill	**(160)**	(160)
Impairment loss of goodwill	**(238)**	(238)
	1,413	991

Details of the associates at 31 December 2002 are as follows. The class of share 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)	—	42.2%	US$1,042,455	Investment in other IT companies

17 INVESTMENTS IN SECURITIES

	2002	2001
	RMB'000	RMB'000
(a) Non-current		
Unlisted equity securities	**5,975**	9,331

(b) Current

	2002	2001
	RMB'000	RMB'000
Held-to-maturity debt securities maturing within one year of the balance sheet date	**13,024**	—

18 INVENTORIES

	Group	
	2002	2001
	RMB'000	RMB'000
Inventories comprise the following:		
Raw materials	**189**	213
Finished goods	**8**	1,452
	197	1,665

Included in finished goods are inventories of RMBNil (2001: RMB99,000), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable	**187**	758	**—**	—
Prepayments, deposits and other receivables	**4,671**	13,141	**94**	312
	4,858	13,899	**94**	312

Included in the Group's prepayments, deposits and other receivables in 2001 was an amount of RMB6,200,000 representing a deposit to a related company for the acquisition of a property. The details of which are set out in note 25 on the financial statements.

All 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	
	2002	2001
	RMB'000	RMB'000
Current	**183**	311
1 to 3 months overdue	**4**	97
More than 3 months overdue but less than 12 months overdue	**—**	350
	187	758

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

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks and other financial institutions	**4,853**	30,572	**3,392**	28,465
Deposit with a financial intermediary	**—**	10,089	**—**	—
Cash at bank and in hand	**34,965**	20,019	**735**	477
	39,818	60,680	**4,127**	28,942

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts payable	**1,000**	1,005	**—**	—
Other creditors and accruals	**3,419**	5,450	**1,263**	2,003
Deferred revenue	**15,466**	15,877	**—**	—
	19,885	22,332	**1,263**	2,003

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.

22 SHARE CAPITAL

	2002 RMB'000	2001 RMB'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**106,510**	106,510

	2002 Number of shares	2002 Amount RMB'000	2001 Number of shares	2001 Amount RMB'000
Issued and fully paid:				
At 1 January and 31 December	**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.

22 SHARE CAPITAL *(Continued)*

(a) Share option scheme (Continued)

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 2002, 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.

23 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	Merger reserve RMB'000 (Note (v))	Total RMB'000
At 1 January 2001	33,124	23	5,880	1,541	4,247	23,765	68,580
Dividends approved in respect of the previous year (note 11 (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

23 RESERVES *(Continued)*

(a) Group (Continued)

	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	Merger reserve RMB'000 (Note (v))	Total RMB'000
At 1 January 2002	33,124	(175)	6,538	1,541	(15,786)	23,765	49,007
Loss for the year	—	—	—	—	(14,879)	—	(14,879)
Exchange differences on translation	—	(1)	—	—	—	—	(1)
Transfer between reserves	—	—	244	—	(244)	—	—
At 31 December 2002	33,124	(176)	6,782	1,541	(30,909)	23,765	34,127

Included in the figure for the accumulated losses is an amount of RMB3,295,000 (2001: RMB2,062,000) being the accumulated losses attributable to associates and an amount of RMB9,925,000 (2001: RMB5,432,000), being VAT refund received by the Group's PRC subsidiary. According to the relevant PRC tax regulations, such refund is used for the purpose of the subsidiary's development.

(b) Company

	Share premium RMB'000 (Note (i))	Retained earnings RMB'000 (Note (iv))	Total RMB'000
At 1 January 2001	33,124	3,802	36,926
Dividends approved in respect of the previous year (note 11 (b))	—	(4,462)	(4,462)
Loss for the year	—	(23,483)	(23,483)
At 31 December 2001	33,124	(24,143)	8,981
At 1 January 2002	33,124	(24,143)	8,981
Loss for the year	—	(6,860)	(6,860)
At 31 December 2002	33,124	(31,003)	2,121

23 RESERVES *(Continued)*

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.

(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 2002 and 2001.

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 2002, the Company had accumulated losses of RMB31,003,000 (2001: RMB24,143,000), 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 RMB2,121,000 (2001: RMB8,981,000).

(v) Merger reserve

The merger reserve of the Company arose as a result of the Group reorganisation in 1999 and represented the net difference between the value recorded for the shares issued by the Company and the nominal value of the issued share capital of the subsidiary received in exchange.

24 COMMITMENTS

(a) Employee benefits

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 contributions to the central pension scheme.

(b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		**Company**	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**837**	3,517	**197**	632
After 1 year but within 5 years	**—**	3,563	**—**	222
After 5 years	**—**	16,800	**—**	—
	837	23,880	**197**	854

The Group leases a number of properties under operating leases, which run for an initial period of 1 to 2 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

25 MATERIAL RELATED PARTY TRANSACTIONS

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 (RMB9,257,000). The transaction was completed during the year and the legal title of the property was transferred to Shanghai Qianlong on 30 April 2002.

26 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

Five-Year Financial Summary

	2002	2001	2000	1999	1998
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note)	(Note)
Consolidated income statement					
Turnover	**33,248**	40,640	46,713	33,885	48,364
Cost of sales	**(13,564)**	(13,733)	(18,005)	(13,841)	(15,458)
Gross profit	**19,684**	26,907	28,708	20,044	32,906
Other revenue	**5,589**	8,092	7,155	3,141	5,270
Other net losses	**(886)**	(3,677)	—	—	—
Distribution costs	**(6,965)**	(7,114)	(3,569)	(1,660)	(1,225)
Administrative expenses	**(22,758)**	(36,245)	(23,294)	(7,642)	(4,753)
Restructuring costs	**(6,918)**	—	—	—	—
Other operating expenses	**(541)**	(1,043)	(492)	(230)	(225)
Share of losses of associates	**(1,233)**	(954)	(1,108)	—	—
(Loss)/profit from ordinary activities before taxation	**(14,028)**	(14,034)	7,400	13,653	31,973
Taxation	**(830)**	(881)	(2,355)	(1,687)	(3,530)
(Loss)/profit from ordinary activities after taxation	**(14,858)**	(14,915)	5,045	11,966	28,443
Minority interests	**(21)**	2	—	—	—
(Loss)/profit attributable to shareholders	**(14,879)**	(14,913)	5,045	11,966	28,443
Dividends attributable to the year	**—**	—	4,462	28,019	51,054
(Loss)/earnings per share — basic	**(7.07 cents)**	(7.08 cents)	2.40 cents	7.85 cents	18.96 cents

Five-Year Financial Summary

	2002	2001	2000	1999	1998
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note)	(Note)
Consolidated balance sheet					
Fixed assets	**11,312**	7,308	9,667	9,127	9,454
Other non-current assets	**7,388**	10,322	5,149	1,600	2,400
Current assets	**57,897**	76,244	98,502	98,741	53,820
Current liabilities	**(20,013)**	(22,431)	(22,299)	(23,536)	(16,571)
Total assets less current liabilities	**56,584**	71,443	91,019	85,932	49,103
Minority interests	**(37)**	(16)	(19)	—	—
Net assets	**56,547**	71,427	91,000	85,932	49,103
Share capital	**22,420**	22,420	22,420	22,420	26,427
Reserves	**34,127**	49,007	68,580	63,512	22,676
Owners' equity	**56,547**	71,427	91,000	85,932	49,103

Note: 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 of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Shareholders of Qianlong Technology International Holdings Limited ("the Company") will be held at Conrad Hotel Hong Kong, Bowen Room, Level 7, Pacific Place, 88 Queensway, Hong Kong, on Saturday, 26 April 2003 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 2002.

2. To approve the payment of a final dividend for the year ended 31 December 2002 (if any).

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

4. To re-appoint auditors and authorise 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 authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period.

(c) The aggregate nominal amount of 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 exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Memorandum and Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:

(aa) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

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

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

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Memorandum and Articles of Association of the Company, the 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 recognise 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 recognised 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 authorised 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 2003

Registered Office
The Offices of Maples and Calder
Attorneys-at-law
Ugland House,
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George Town,
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Cayman Islands,
British West Indies

Head Office and Principal Place of Business
Room 1204B, Lippo Centre Tower II,
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, Computershare Hong Kong Investor Services 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 resolution no. 5 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise 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.