

ANNUAL REPORT 2003-2004



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 “STOCK 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.



ontents

	<i>Page</i>
Corporate Information	2
Financial Summary	3
Chairman's Statement	4
Management's Discussion and Analysis	6
Profiles of the Group	8
Profiles of Directors and Senior Management	9
Report of the Directors	12
Report of the Auditors	18
Consolidated Income Statement	19
Consolidated Balance Sheet	20
Balance Sheet	21
Consolidated Statement of Changes of Equity	22
Consolidated Cash Flow Statement	23
Notes on the Financial Statements	25
Five Year Financial Summary	58
Notice of Annual General Meeting	60





EXECUTIVE DIRECTORS

Chen Shen Tien
Fan Ping Yi
Yang Ching Shou, Peter
Chen Ming Chuan
Yu Shih Pi

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
Yang Ching Shou, Peter

SPONSOR

CSC Asia Limited

COMPLIANCE OFFICER

Fan Ping Yi

PRINCIPAL BANKERS

In The People's Republic of China:
Industrial and Commercial Bank of China
Guang Dong Development Bank,
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

Central Registration Hong Kong Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 4B, 12th Floor
Lippo Centre Tower II
89 Queensway, Admiralty
Hong Kong

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



GROUP RESULTS

	2003 RMB'000	2002 RMB'000
Turnover	30,559	33,248
Profit/(loss) from ordinary activities before taxation	5,003	(14,028)
Taxation	(866)	(830)
Profit/(loss) from ordinary activities after taxation	4,137	(14,858)
Minority interests	1	(21)
Profit/(loss) attributable to shareholders	4,138	(14,879)
Earnings/(loss) per share-Basic (RMB cent)	1.97	(7.07)

GROUP ASSETS AND LIABILITIES

	2003 RMB'000	2002 RMB'000
Fixed assets	10,975	11,312
Investment in associates	786	1,413
Investment in securities	4,626	5,975
	<u>16,387</u>	<u>18,700</u>
Current Assets		
Inventories	156	197
Investments in securities	34,377	13,024
Trade and other receivables	3,455	4,858
Cash and cash equivalents	26,264	39,818
	<u>64,252</u>	<u>57,897</u>
Current Liabilities		
Trade and other payables	19,389	19,885
Taxation payable	242	128
	<u>19,631</u>	<u>20,013</u>
Net Current Assets	44,621	37,884
Minority interests	36	37
Net Assets	<u>60,972</u>	<u>56,547</u>
Share capital	22,420	22,420
Reserves	38,552	34,127
	<u>60,972</u>	<u>56,547</u>



On behalf of the board of directors, I am pleased to present the announcement of Qianlong Technology International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

BUSINESS REVIEW

For the year ended 31 December 2003, the Group reported a turnover of RMB30,559,000 (2002: RMB33,248,000) representing a decrease of 8% as compared with that of the previous year. The decrease was due to the 49% sales decline of securities analysis software as a result of the stagnant stock market and tough competition in the PRC.

On the other side, the Group recorded a net profit attributable to shareholders of RMB4,138,000 in 2003, whereas a net loss attributable to shareholder of RMB14,879,000 was recorded in the previous year. The profit in 2003 was resulted from the following reasons:

- 1) After the restructure of the Group in 2002, operating costs have decreased by 46% as compared to the same period of previous year. Accordingly, net profit was achieved for the year compared to losses in the previous year despite turnover having dropped; and
- 2) Ningbo Qianlong Computer Software Company Limited, one of the Group's subsidiaries, has received RMB2,200,000 representing reimbursement for leasehold improvements undertaken at the former rented offices in Qibao Town, Shanghai.

PROSPECTS

After last year's restructuring exercise, the Group will maintain its competitive strategy of concentrating on core business development, that is to engage mainly in the development, production and distribution of securities analysis software. To meet this goal, the Group will adopt the following steps:

- 1) Upgrade the network version of securities analysis software and develop new products such as securities choice server, online securities transaction system and securities brokers system to maintain its leading position and strengthen its traditional advantages and competitive power in the market.
- 2) Develop customer analysis software for various versions such as the Professional Version and the Classical Version to meet different users' requirements; and
- 3) Provide enterprises customers with a full range of services from maintenance, training, consulting and tailor made products through the newly established customer service center.

The Directors believe that the Group's performance will continually improve and the prospects for the Group are getting brighter in 2004.





PRODUCT DEVELOPMENT

In the first half year of 2003, the Group launched the upgraded Network Version of securities analysis software, which runs on both Windows and DOS systems with the following additional functions:

- (1) Supporting the change on minimum scale of spreads for mutual funds listed in Shanghai and Shenzhen Stock Exchange from RMB1 cent to RMB0.1 cent;
- (2) Providing data services and related tools of "Qianlong Data Communication System", and also launching services to upgrade the financial data for the single share and exact dividends' information;
- (3) Enhancing the management functions of "Londcd", which enables more intelligent system operation and more convenient maintenance;
- (4) Enhancing functions for the DOS Version analysis software at customer end;
- (5) Starting to use the latest Windows version analysis software at customer end; and
- (6) Enabling the webmaster to set up some criteria on DOS Version to limit the daily frequency to access the terminal for the Magcard holders.

After marketing activities and training sessions to distributors and securities brokers, the upgraded software functions as well as the excellent features have been greatly welcomed by the users. The Group will continue to develop new products or functions to maintain its leading position in the market.

CONCLUDING REMARKS

Through the restructure exercise in 2002, the Group has gained the initial achievements in 2003. I believe in the new year the Group will achieve greater achievements. 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, 23 March 2004



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 2003, the Group's turnover of Network Version recorded a decrease of 59% from RMB3,905,000 in 2002 to RMB1,593,000 in 2003.

Stand-alone Version

The Stand-alone Version sales suffered another drop to RMB115,000 in 2003 as compared with that in previous year.

Maintenance Fee

Maintenance fee in 2003 has decreased 3% compared to the same period in the previous year primarily because a number of clients have upgraded "Integration Version 100" from the previous "Integration Version" with a promotion package of 50% discount on the annual maintenance services fees and some securities houses have ceased to use the Company's software.

Consulting Service Fee

The consulting service fee in 2003 grew from RMB140,000 in 2002 to RMB334,000.

Rental income from investment property

The Group has earned net income of RMB695,000 for the leasing property in 2003. The Group has signed five years' contract with the clients, so the Group will get this rental income continuously in next four years.

ADMINISTRATIVE AND OTHER EXPENSES

The Group's administrative and other expenses decreased 46% from RMB37,182,000 in 2002 to RMB20,132,000 in 2003, mainly due to the restructure of the Group and the discontinuance of operation of Worry Free Shanghai and the cease of production line in relation to Intelligent Box II.

DEPLOYMENT OF HUMAN RESOURCES

The total number of staff of the Group increased from 100 as at 31 December 2002 to 107 as at 31 December 2003. 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 provident fund, a retirement benefit and a medical plan. In the year, the total cost for staff (including salary, bonus and other welfare) is approximately RMB9,029,000 (2002: RMB14,155,000)

BOND INVESTMENT

In March 2003, one of the Group's subsidiaries, Shanghai Qianlong Advanced Technology Company Limited, invested RMB35,000,000 in the Treasury Bond listed in Shanghai Stock Exchange with a fixed annual yield of 2.66%.

At the date of 31 December 2003, the cash and cash equivalent of Shanghai Qianlong Advanced Technology Company Limited are RMB17,393,000, therefore Shanghai Qianlong Advanced Technology Company Limited has sufficient working capital to operate the regular business of the Company.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2003 or as at 31 December 2002.

FINANCIAL RESOURCES, LIQUIDITY AND TREASURY POLICIES

Cash and bank balance of the Group as at 31 December 2003 were RMB26,264,000 equivalent, representing the funds generated from the Group's operation. The Group had a working capital ratio of approximately 3.30 : 1.

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 securities or mortgages.

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.

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 34.04% 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.

EXECUTIVE DIRECTORS

Mr. Chen Shen Tien, aged 46, 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 9 years experience in the IT industry.

Mr. Fan Ping Yi, aged 45, 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 19 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 45, is the general manager of the Group and 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 19 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. Chen Ming Chuan, aged 39, has engaged in the IT industry over 19 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 41, is the general manager of Chien Long Investment Company Limited. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chiu Kam Hing, Kathy, aged 55, has over 32 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 45, 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 21 years of experience in IT industry in Taiwan and held a bachelor degree in communication management of Jiaotong University in Hsinchu, Taiwan.

SENIOR MANAGEMENT

Mr. Du Hao, aged 35, is the executive 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 10 years of product research and development experience. He holds a master of science degree in electronic engineering from Fudan University.

Mr. Song Li Qun, aged 36, 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 9 years of experience in the IT industry.

Mr. Zhou Xiang, aged 33, is the head of technology and R & D of Shanghai Qianlong Advanced Technology Company Limited. He is in-charge of technology and R & D teams of Shanghai Qianlong Advanced Technology Company Limited. He holds a bachelor's degree from Hua Zhong Science and Technology University, and has 9 years of experience in the IT industry.

Mr. Zhao Bing, aged 38, 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 6 years of experience in sales and marketing planning. He holds a master degree in marketing management in Jiaotong University.

Mr. Chen Gangliang, aged 31, 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 6 years of after sales experience.

QUALIFIED ACCOUNTANT

Mr. Ip Pui Lam, Arthur, aged 42, is the qualified accountant of the Group. He has over 11 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 42, is the company secretary of the Group. He joined the Group in 1999. He holds a 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 and a senior partner of Messrs. Lau & Chan with over 12 years of experience in law practice.

COMPLIANCE OFFICER

Mr. Fan Ping Yi, aged 45, 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 19 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.

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the research, development and distribution of computer software, the provision of 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 15 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	2%	
Five largest customers in aggregate	5%	
The largest supplier		24%
Five largest suppliers in aggregate		80%

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 profit of the Group for the year ended 31 December 2003 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 19 to 57.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2003 (2002: RMB Nil).

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to RMB20,000 (2002: RMB80,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company during the year are set out in note 14 on the financial statements.

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 2003 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 managing director 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

In accordance with article 116 of the Company's Articles of Association, Mr. Yu Shih Pi and Mr. Hsu Wen Huei 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' INTERESTS IN SHARES

As at 31 December 2003, the interests of the directors 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 Ming Chuan	Corporate (note (i))	18,375,000
Yu Shih Pi	Corporate (note (i))	14,875,000

Notes:

- (i) As at 31 December 2003, Mr. Chen Shen Tien is the shareholder of Red Coral Financial Limited which holds 40,250,000 shares, representing a 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 which holds 24,500,000 shares, representing a 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 which holds 24,500,000 shares, representing a 11.639% interest in the Company. Mr. Chen Ming Chuan is the shareholder of Star Channel Technology Limited which holds 18,375,000 shares, representing a 8.729% interest in the Company. Mr. Yu Shih Pi is the shareholder of Star Orient Global Limited which holds 14,875,000 shares, representing a 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 has been notified of these interests, being 10% or more of the issued share capital of the Company.

DIRECTORS' 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 highest 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 2003, 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, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors 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 in 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.

Apart from the foregoing, no contract of significance to which the Company, or any of its holding companies or 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 2003, 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 a fee for acting as the Company's retained sponsor for the period from 1 January 2002 to 31 December 2003.

The Company signed an agreement with CSC on 21 November 2003, reappointing CSC as the sponsor of the Company for the period from 1 January 2004 to 31 December 2005.

AUDIT COMMITTEE

The Group established an audit committee in 1999 in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The current committee comprises 3 members, Mr Chen Shen Tien, Ms Chiu Kam Hing, Kathy, and Mr Hsu Wen Huei. The committee held one meeting during the year. The committee has 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 the assets and liabilities of the Group for the last five financial years is set out on pages 58 to 59 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, 23 March 2004



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 19 to 57 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 and of the Group's profit 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, 23 March 2004



Consolidated Income Statement

For the year ended 31 December 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Turnover	2	30,559	33,248
Cost of sales		<u>(10,331)</u>	<u>(13,564)</u>
Gross profit		20,228	19,684
Other revenue	3	5,588	5,589
Other net losses	3	(54)	(886)
Distribution costs		(5,762)	(6,965)
Administrative expenses		(14,288)	(22,758)
Restructuring costs	5	—	(6,918)
Other operating expenses		<u>(82)</u>	<u>(541)</u>
Profit/(loss) from operations		5,630	(12,795)
Share of losses of associates		<u>(627)</u>	<u>(1,233)</u>
Profit/(loss) from ordinary activities before taxation	6	5,003	(14,028)
Taxation	7(a)	<u>(866)</u>	<u>(830)</u>
Profit/(loss) from ordinary activities after taxation		4,137	(14,858)
Minority interests		<u>1</u>	<u>(21)</u>
Profit/(loss) attributable to shareholders	10	<u>4,138</u>	<u>(14,879)</u>
Earnings/(loss) per share – basic	12	<u>1.97 cents</u>	<u>(7.07 cents)</u>

The notes on pages 25 to 57 form part of these financial statements.





Consolidated Balance Sheet

At 31 December 2003
(Expressed in Renminbi)

	Note	2003		2002	
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets	14(a)		10,975		11,312
Interest in associates	16		786		1,413
Investment in securities	17(a)		4,626		5,975
			<u>16,387</u>		<u>18,700</u>
Current assets					
Inventories	18	156		197	
Investment in securities	17(b)	34,377		13,024	
Trade and other receivables	19	3,455		4,858	
Cash and cash equivalents	20	26,264		39,818	
		<u>64,252</u>		<u>57,897</u>	
Current liabilities					
Trade and other payables	21	19,389		19,885	
Tax payable	7(c)	242		128	
		<u>19,631</u>		<u>20,013</u>	
Net current assets			<u>44,621</u>		<u>37,884</u>
Total assets less current liabilities			<u>61,008</u>		<u>56,584</u>
Minority interests			<u>(36)</u>		<u>(37)</u>
Net assets			<u><u>60,972</u></u>		<u><u>56,547</u></u>
Capital and reserves					
Share capital	22		22,420		22,420
Reserves	23(a)		38,552		34,127
			<u>60,972</u>		<u>56,547</u>

Approved and authorised for issue by the board of directors on 23 March 2004

Chen Shen Tien
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 25 to 57 form part of these financial statements.



B

alance Sheet

At 31 December 2003
(Expressed in Renminbi)

	Note	2003		2002	
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets	14(b)		—		30
Interest in subsidiaries	15		18,003		21,791
			<u>18,003</u>		<u>21,821</u>
Current assets					
Trade and other receivables	19	199		94	
Cash and cash equivalents	20	4,773		4,127	
		<u>4,972</u>		<u>4,221</u>	
Current liabilities					
Trade and other payables	21	865		1,263	
Amounts due to subsidiaries		358		238	
		<u>1,223</u>		<u>1,501</u>	
Net current assets			<u>3,749</u>		<u>2,720</u>
Net assets			<u>21,752</u>		<u><u>24,541</u></u>
Capital and reserves					
Share capital	22		22,420		22,420
Reserves	23(b)		(668)		2,121
			<u>21,752</u>		<u><u>24,541</u></u>

Approved and authorised for issue by the board of directors on 23 March 2004

Chen Shen Tien
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 25 to 57 form part of these financial statements.



C

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Shareholders' equity at 1 January		<u>56,547</u>	<u>71,427</u>
Surplus on revelation of investment property in excess of cost	23(a)	107	—
Exchange differences on translation of the financial statements of foreign entities	23(a)	<u>180</u>	<u>(1)</u>
Net gain/(loss) not recognised in the income statement		<u>287</u>	<u>(1)</u>
Net profit/(loss) for the year		<u>4,138</u>	<u>(14,879)</u>
Shareholders' equity at 31 December		<u><u>60,972</u></u>	<u><u>56,547</u></u>

The notes on pages 25 to 57 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Expressed in Renminbi)

	2003 RMB'000	2002 RMB'000
Operating activities		
Profit/(loss) from ordinary activities before taxation	5,003	(14,028)
Adjustments for:		
— Depreciation	681	1,679
— (Surplus)/deficit on revaluation of an investment property	(240)	240
— Gain on sale of investment securities	—	(3,274)
— Provision for impairment of fixed assets	265	—
— Provision for diminution in value of investment securities	2,639	2,833
— Interest income	(1,085)	(687)
— Share of losses of associates	627	1,233
— (Gain)/loss on disposal of fixed assets	(2,254)	3,719
— Foreign exchange gain	—	(1)
	<hr/>	<hr/>
Operating profit/(loss) before changes in working capital	5,636	(8,286)
Decrease/(increase) in inventories	41	1,468
Decrease in trade and other receivables	1,403	2,834
Decrease in trade and other payable	(496)	(2,447)
	<hr/>	<hr/>
Cash generated from/(used in) operations	6,584	(6,431)
Interest received	1,085	687
Tax paid		
— PRC tax paid	(752)	(801)
	<hr/>	<hr/>
Net cash from/(used in) operating activities	6,917	(6,545)





Consolidated Cash Flow Statement

For the year ended 31 December 2003 (Continued)
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Investing activities			
Payment for purchase of fixed assets		(307)	(3,993)
Proceeds from sales of fixed assets		2,299	558
Payment for purchase of associates		—	(1,655)
Payment for purchase of investment securities		(35,667)	(13,024)
Proceeds from sale of investment securities		—	3,797
Proceeds from sale of held-to-maturity securities		13,024	—
Net cash used in investing activities		(20,651)	(14,317)
Net decrease in cash and cash equivalents		(13,734)	(20,862)
Effect of foreign exchange rates changes		180	—
Cash and cash equivalents at 1 January		39,818	60,680
Cash and cash equivalents at 31 December	20	26,264	39,818
Included in the above amounts are the following net cash flows related to discontinued operations for the year ended 31 December 2003:			
Cash flows from operating activities		(4)	(1,711)
Cash flows from investing activities		—	471

The notes on pages 25 to 57 form part of these financial statements.



(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include 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 a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the boards of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from 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 intra-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)).

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates

An associate is an entity in which the Group 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.

(Expressed in Renminbi)

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.

(Expressed in Renminbi)

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.

(Expressed in Renminbi)

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.

(Expressed in Renminbi)

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 the 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.

(Expressed in Renminbi)

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) Income Tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income Tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation of settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income Tax (Continued)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(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.

(Expressed in Renminbi)

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 fees are billed in advance and are recognised as income on a straight-line basis over the period of the provision of the related services. The unrecognised portion is recorded as deferred revenue in the balance sheet.

(iii) Consulting service fee income

Consulting service fees 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.

(Expressed in Renminbi)

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 is 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 other 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.

(Expressed in Renminbi)

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 the 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.

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 fixed assets. 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.

(Expressed in Renminbi)

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:

	2003	2002
	RMB'000	RMB'000
Maintenance service fees	27,196	28,034
Sale of computer software	2,334	4,576
Consulting service fees	334	140
Gross rental income from investment property	695	—
Others	—	498
	30,559	33,248

*(Expressed in Renminbi)***3 OTHER REVENUE AND NET LOSSES**

	2003	2002
	RMB'000	RMB'000
Other revenue		
Value added tax refund (Note)	4,025	4,493
Interest income	1,085	687
Government grant	343	—
Miscellaneous	135	409
	<u>5,588</u>	<u>5,589</u>
Other net losses		
Gain on sale of investment securities	—	3,274
Gain/(loss) on disposal on fixed assets	2,254	(1,087)
Provision for diminution in value of investment securities	(2,639)	(2,833)
Surplus/(deficit) on revaluation of investment property	240	(240)
Impairment loss of fixed assets	(265)	—
Gain on sale of investment securities	356	—
	<u>(54)</u>	<u>(886)</u>

Note: A tax concession has been granted by the PRC tax authorities to the Group's PRC subsidiaries which are engaged in 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.

(Expressed in Renminbi)

4 DISCONTINUING OPERATIONS

On 11 May 2002, the Group terminated the operation of a subsidiary, Worry-free Consulting (Shanghai) Limited. A restructuring cost of RMB360,000 was 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:

	2003 RMB'000	2002 RMB'000
Turnover	—	140
Cost of sales	—	—
Gross profit	—	140
Other revenue	1	15
Other net losses	(62)	(770)
Administrative expenses	(32)	(1,935)
Restructuring costs	—	(360)
Loss from ordinary activities before taxation	(93)	(2,910)
Taxation	—	—
Loss from ordinary activities after taxation	(93)	(2,910)

5 RESTRUCTURING COSTS

The Group implemented a restructuring during 2002 and incurred restructuring costs in the year ended 31 December 2002 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
Total	6,558	360	6,918

No restructuring costs were incurred in the year ended 31 December 2003.

*(Expressed in Renminbi)***6 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION**

Profit/(loss) from ordinary activities before taxation is arrived at after charging:

	2003	2002
	RMB'000	RMB'000
(a) Staff costs:		
Contributions to defined contribution plan	774	1,627
Salaries, wages and other benefits	8,255	12,528
	<u>9,029</u>	<u>14,155</u>
(b) Other items:		
Cost of inventories	429	1,656
Maintenance service expenses	9,903	11,908
Research and development costs	2,975	2,755
Depreciation	681	1,679
Operating lease charges – properties	1,524	3,497
Auditors' remuneration		
– provision for the year	665	761
	<u>665</u>	<u>761</u>

(Expressed in Renminbi)

7 TAXATION

(a) Taxation in the consolidated income statement represents:

	2003	2002
	RMB'000	RMB'000
Current tax – PRC tax for the year	866	830

The Group did not earn any income assessable to Hong Kong profits tax during the year or the previous year.

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

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003		2002	
	RMB'000	%	RMB'000	%
Profit/(loss) before tax	5,003		(14,028)	
Notional tax on profit before tax, calculated at the rates applicable to profits in the PRC	675	13.5	(1,894)	13.5
Tax effect of non-deductible expenses	1,192	23.8	3,330	(23.7)
Tax effect of non-taxable revenue	(1,001)	(20.0)	(606)	4.3
Actual tax expense	866	17.3	830	(5.9)

(c) 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 rates of taxation.

(d) Deferred taxation

The Group has not recognised deferred tax assets of RMB5,678,000 (2002: RMB5,367,000) in respect of tax losses, as the subsidiaries with such losses are dormant and as there is a five year time limit on the carryforward of such losses.

There were no other significant temporary differences resulting in deferred taxation assets or liabilities during the year or the preceding year.

(Expressed in Renminbi)

8 DIRECTORS' REMUNERATION

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

	2003	2002
	RMB'000	RMB'000
Directors' fees	416	414
Salaries and other emoluments	2,078	2,964
Retirement scheme contributions	24	68
	<u>2,518</u>	<u>3,446</u>

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

	2003	2002
	RMB'000	RMB'000
Executive directors	422	419
	—	449
	—	413
	—	398
	422	420
	421	—
	420	—
	416	345
Non-executive directors	—	294
	—	294
Independent non-executive directors	208	207
	—	175
	208	32
	<u>2,518</u>	<u>3,446</u>

The executive directors have entered into service contracts 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. Based on the terms of these service contracts, each of the directors is 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 a gratuitous year end bonus in respect of any financial year based on a predetermined percentage of the audited consolidated profits after taxation (including deduction of any bonus so paid) and minority interests.

(Expressed in Renminbi)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2002: all) are directors whose emoluments are disclosed in note 8 above.

10 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of RMB2,789,000 (2002: loss of RMB6,860,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2003 (2002: RMB Nil).

12 EARNINGS/(LOSS) PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB4,138,000 (2002: The calculation of basic loss per share is based on the loss attributable to shareholders of RMB14,879,000) and 210,500,000 ordinary shares (2002: 210,500,000) in issue during the year.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2003 and 2002.

13 SEGMENT REPORTING

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

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.

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 services.

N

otes on the Financial Statements

(Expressed in Renminbi)

13 SEGMENT REPORTING (Continued)

	Distribution of computer software		Discontinuing operations Provision of consulting service		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	30,225	32,610	—	140	334	498	30,559	33,248
Other revenue	5,452	5,146	—	15	136	428	5,588	5,589
External revenue	35,677	37,756	—	155	470	926	36,147	38,837
Contribution from operations	4,450	6,043	—	(2,550)	(805)	(979)	3,645	2,514
Restructuring costs	—	(6,558)	—	(360)	—	—	—	(6,918)
Unallocated operating income and expense							1,985	(8,391)
Profit/(loss) from operations							5,630	(12,795)
Share of losses of associates	—	—	—	—	(627)	(1,233)	(627)	(1,233)
Taxation							(866)	(830)
Minority interests							1	(21)
Profit/(loss) attributable to shareholders							4,138	(14,879)
Depreciation for the year	566	1,420	—	152	115	21		
Segment assets	13,364	15,233	—	—	97	299	13,461	15,532
Investment in associates	—	—	—	—	786	1,413	786	1,413
Unallocated assets							66,392	59,652
Total assets							80,639	76,597
Segment liabilities	18,476	18,314	—	—	294	300	18,770	18,614
Unallocated liabilities							861	1,399
Total liabilities							19,631	20,013
Capital expenditure incurred during the year	284	9,797	—	395	23	—		

(Expressed in Renminbi)

14 FIXED ASSETS

(a) Group

	Buildings	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Motor vehicles	Sub-total	Investment properties	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:								
At 1 January 2003	137	641	2,102	1,063	1,086	5,029	9,017	14,046
Additions	—	—	305	2	—	307	—	307
Disposals	—	—	—	—	(437)	(437)	—	(437)
Surplus on revaluation	—	—	—	—	—	—	347	347
At 31 December 2003	137	641	2,407	1,065	649	4,899	9,364	14,263
Accumulated depreciation:								
At 1 January 2003	43	622	976	629	464	2,734	—	2,734
Charge for the year	7	19	384	94	177	681	—	681
Impairment loss	87	—	119	59	—	265	—	265
Written back on disposals	—	—	—	—	(392)	(392)	—	(392)
At 31 December 2003	137	641	1,479	782	249	3,288	—	3,288
Net book value:								
At 31 December 2003	—	—	928	283	400	1,611	9,364	10,975
At 31 December 2002	94	19	1,126	434	622	2,295	9,017	11,312
Representing:								
Cost	137	641	2,407	1,065	649	4,899	—	4,899
Valuation – 2003	—	—	—	—	—	—	9,364	9,364
	137	641	2,407	1,065	649	4,899	9,364	14,263

(Expressed in Renminbi)

14 FIXED ASSETS (Continued)

(b) Company

	Computer equipment	Furniture, fixtures and office equipment	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2003	215	111	326
Addition	1	—	1
	<u>216</u>	<u>111</u>	<u>327</u>
At 31 December 2003	216	111	327
	<u>216</u>	<u>111</u>	<u>327</u>
Accumulated depreciation:			
At 1 January 2003	188	108	296
Charge for the year	28	3	31
	<u>216</u>	<u>111</u>	<u>327</u>
At 31 December 2003	216	111	327
	<u>216</u>	<u>111</u>	<u>327</u>
Net book value:			
At 31 December 2003	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2002	27	3	30
	<u>27</u>	<u>3</u>	<u>30</u>

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

	2003	2002
	RMB'000	RMB'000
In PRC		
Medium-term leases	<u>9,364</u>	<u>9,111</u>

(d) The Group's investment property was revalued at 31 December 2003 by an independent firm of surveyors, Shanghai Zhengda Assets 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. RMB240,000 of the total revaluation surplus of RMB347,000 has been credited to the consolidated income statement (note 3) to offset the deficit on revaluation recognised in previous years. The remaining surplus of RMB107,000 has been credited to the revaluation reserve (note 23).

(Expressed in Renminbi)

14 FIXED ASSETS (Continued)

(e) The Group leases out investment property under operating leases. 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 include contingent rentals.

The gross carrying amount of investment properties of the Group held for use in operating leases was RMB9,364,000 (2002: RMB9,017,000).

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

	2003	2002
	RMB'000	RMB'000
Within 1 year	732	671
After 1 year but within 5 years	2,256	2,927
After 5 years	—	61
	<u>2,988</u>	<u>3,659</u>

15 INTEREST IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost	7,231	7,192
Amounts due from subsidiaries	36,225	36,103
Less: Impairment loss	(25,453)	(21,504)
	<u>18,003</u>	<u>21,791</u>

Details of the subsidiaries at 31 December 2003 are as follows. The class of shares held is ordinary unless otherwise stated.

(Expressed in Renminbi)

15 INTEREST IN SUBSIDIARIES (Continued)

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

Name of company	Place and form of incorporation and operation	Percentage of equity		Particulars of issued/paid up capital	Principal activities
		held by the Company	held by subsidiary		
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 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 (limited company)	—	99.3	NTD7,338,010	Investment holding

(Expressed in Renminbi)

16 INTEREST IN ASSOCIATES

	Group	
	2003 RMB'000	2002 RMB'000
Share of net assets	786	1,413
Goodwill	398	398
Accumulated amortisation of goodwill	(160)	(160)
Impairment loss of goodwill	(238)	(238)
	786	1,413

Details of the associates at 31 December 2003 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		Particulars of issued/ paid up capital	Principal activities
		held by the Company	held by subsidiary		
Shanghai Gloucester Walker 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)	—	34.04%	US\$1,292,455	Investment in other IT companies

(Expressed in Renminbi)

17 INVESTMENT IN SECURITIES

	2003	2002
	RMB'000	RMB'000
(a) <i>Non-current</i>		
Unlisted equity securities	<u>4,626</u>	<u>5,975</u>
(b) <i>Current</i>		
	2003	2002
	RMB'000	RMB'000
Held-to-maturity unlisted debt securities maturing within one year of the balance sheet date	—	13,024
Other unlisted debt securities (at market value)	<u>34,377</u>	<u>—</u>

All securities are held outside Hong Kong.

18 INVENTORIES

	Group	
	2003	2002
	RMB'000	RMB'000
Inventories comprise the following:		
Raw materials	150	189
Finished goods	<u>6</u>	<u>8</u>
	<u>156</u>	<u>197</u>

Included in finished goods are inventories of RMB6,000 (2002: RMB5,000) stated net of provisions made in order to state these inventories at the lower of their cost and estimated net realisable value.

*(Expressed in Renminbi)***19 TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Accounts receivable	225	187	63	—
Prepayments, deposits and other receivables	3,230	4,671	136	94
	<u>3,455</u>	<u>4,858</u>	<u>199</u>	<u>94</u>

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

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

	Group	
	2003 RMB'000	2002 RMB'000
Current	149	183
1 to 3 months overdue	67	4
More than 3 months overdue but less than 12 months overdue	9	—
	<u>225</u>	<u>187</u>

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

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Deposits with banks and other financial institutions	5,114	4,853	3,637	3,392
Cash at bank and in hand	21,150	34,965	1,136	735
	<u>26,264</u>	<u>39,818</u>	<u>4,773</u>	<u>4,127</u>

(Expressed in Renminbi)

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Accounts payable	827	1,000	—	—
Other creditors and accruals	3,607	3,419	865	1,263
Deferred revenue	14,955	15,466	—	—
	<u>19,389</u>	<u>19,885</u>	<u>865</u>	<u>1,263</u>

All accounts payables 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

	2003 RMB'000		2002 RMB'000	
<i>Authorised:</i>				
1,000,000,000 ordinary shares of HK\$0.10 each		<u>106,510</u>		<u>106,510</u>
	2003		2002	
	Number of	Amount	Number of	Amount
	shares	RMB'000	shares	RMB'000
<i>Issued and fully paid:</i>				
At 1 January and 31 December	<u>210,500,000</u>	<u>22,420</u>	<u>210,500,000</u>	<u>22,420</u>

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

(Expressed in Renminbi)

22 SHARE CAPITAL (Continued)

(a) Share option scheme

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

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employees share option scheme) exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose (i) any shares which have been duly allotted and issued on the exercise of the options granted under the share option scheme and any other schemes and (ii) any pro rata entitlements to further shares issued in respect of those shares referred to in (i) during a specified period of 10 consecutive years.

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

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

Up to 31 December 2003, 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.

(Expressed in Renminbi)

23 RESERVES

(a) Group

	Share premium	Exchange reserve	General reserve	Enterprise expansion fund	Retained earnings	Merger reserve	Revaluation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note (i))		(Note (ii))	(Note (iii))		(Note (v))		
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
At 1 January 2003	33,124	(176)	6,782	1,541	(30,909)	23,765	—	34,127
Profit for the year	—	—	—	—	4,138	—	—	4,138
Exchange differences on translation	—	180	—	—	—	—	—	180
Transfer between reserves	—	—	(1,359)	(1,541)	2,900	—	—	—
Surplus on revaluation of investment property	—	—	—	—	—	—	107	107
Transfer from profit to general reserve	—	—	954	—	(954)	—	—	—
At 31 December 2003	33,124	4	6,377	—	(24,825)	23,765	107	38,552

Included in the figure for the accumulated losses is an amount of RMB3,922,000 (2002: RMB3,295,000) being the accumulated losses attributable to associates and an amount of RMB13,950,000 (2002: RMB9,925,000), being VAT refunds received by the Group's PRC subsidiary. According to the relevant PRC tax regulations, such refunds are to be used for the purpose of the subsidiary's development.

*(Expressed in Renminbi)***23 RESERVES** *(Continued)**(b) Company*

	Share premium	Retained earnings	Total
	RMB'000	RMB'000	RMB'000
	(Note (i))	(Note (iv))	
At 1 January 2002	33,124	(24,143)	8,981
Loss for the year	—	(6,860)	(6,860)
	<u>33,124</u>	<u>(31,003)</u>	<u>2,121</u>
At 31 December 2002	<u>33,124</u>	<u>(31,003)</u>	<u>2,121</u>
At 1 January 2003	33,124	(31,003)	2,121
Loss for the year	—	(2,789)	(2,789)
	<u>33,124</u>	<u>(33,792)</u>	<u>(668)</u>
At 31 December 2003	<u>33,124</u>	<u>(33,792)</u>	<u>(668)</u>

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 may be or converted into paid-up capital of the respective subsidiary.

(iii) Enterprise expansion fund

The enterprise expansion fund has been set up by a PRC subsidiary and the amount allocated to this fund is at management's discretion. Since this company has discontinued its operations the fund has been released to retained earnings during 2003.

(Expressed in Renminbi)

23 RESERVES (Continued)

(iv) Retained earnings

At 31 December 2003, the Company had accumulated losses of RMB33,792,000 (2002: RMB31,003,000), 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 profit available for distribution to shareholders of the Company was RMB Nil (2002: RMB2,121,000).

(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 Shanghai Qianlong Advanced Technology Company Limited are members of a central pension scheme operated by the local government. 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 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 year	1,932	837	231	197
After 1 year but within 5 years	959	—	173	—
	<u>2,891</u>	<u>837</u>	<u>404</u>	<u>197</u>

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.

(Expressed in Renminbi)

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 2002 and the legal title of the property was transferred to Shanghai Qianlong on 30 April 2002.

F

Five-year Financial Summary

(Expressed in Renminbi)

	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000 (Note)	1999 RMB'000
Consolidated income statement					
Turnover	30,559	33,248	40,640	46,713	33,885
Cost of sales	(10,331)	(13,564)	(13,733)	(18,005)	(13,841)
	20,228	19,684	26,907	28,708	20,044
Other revenue	5,588	5,589	8,092	7,155	3,141
Other net losses	(54)	(886)	(3,677)	—	—
Distribution costs	(5,762)	(6,965)	(7,114)	(3,569)	(1,660)
Administrative expenses	(14,288)	(22,758)	(36,245)	(23,294)	(7,642)
Restructuring costs	—	(6,918)	—	—	—
Other operating expenses	(82)	(541)	(1,043)	(492)	(230)
Share of losses of associates	(627)	(1,233)	(954)	(1,108)	—
Profit/(loss) from ordinary activities before taxation	5,003	(14,028)	(14,034)	7,400	13,653
Taxation	(866)	(830)	(881)	(2,355)	(1,687)
Profit/(loss) from ordinary activities after taxation	4,137	(14,858)	(14,915)	5,045	11,966
Minority interests	1	(21)	2	—	—
Profit/(loss) attributable to shareholders	4,138	(14,879)	(14,913)	5,045	11,966
Dividends attributable to the year	—	—	—	4,462	28,019
Earnings/(loss) per share — basic	1.97 cents	(7.07 cents)	(7.08 cents)	2.40 cents	7.85 cents

F

Five-year Financial Summary

(Expressed in Renminbi)

	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000 (Note)	1999 RMB'000
Consolidated balance sheet					
Fixed assets	10,975	11,312	7,308	9,667	9,127
Other non-current assets	5,412	7,388	10,322	5,149	1,600
Current assets	64,252	57,897	76,244	98,502	98,741
Current liabilities	(19,631)	(20,013)	(22,431)	(22,299)	(23,536)
Total assets less current liabilities	61,008	56,584	71,443	91,019	85,932
Minority interests	(36)	(37)	(16)	(19)	—
Net assets	60,972	56,547	71,427	91,000	85,932
Share capital	22,420	22,420	22,420	22,420	22,420
Reserves	38,552	34,127	49,007	68,580	63,512
Owners' equity	60,972	56,547	71,427	91,000	85,932

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 1999 rather than from 2 December 1999. Accordingly, the consolidated results of the Group for the year ended 31 December 1999 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. The net difference between the value recorded for the shares issued and the nominal value of the issued share capital received in exchange is transferred to the merger reserve.

Notice is hereby given that an Annual General Meeting of the Shareholders of Qianlong Technology International Holdings Limited (“the Company”) will be held at Conrad Hotel Hong Kong, Bowen Room, Level 7, Pacific Place, 88 Queensway, Hong Kong, on Sunday, 18 April 2004 at 15:00, 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 2003.
2. To approve the payment of a final dividend for the year ended 31 December 2003 (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

N

Notice of Annual General Meeting

- (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

23 March 2004

Registered Office:

The Offices of Maples and Calder
Attorneys-at-law
Ugland House,
P.O. Box 309,
George Town,
Grand Cayman,
Cayman Islands,
British West Indies

Head Office and Principal Place of Business:

Room 1204B, Lippo Centre Tower II,
89 Queensway,
Admiralty,
Hong Kong



N

Notice of Annual General Meeting

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.