

ANNUAL REPORT 2004-2005



QIANLONG TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Exchange 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 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 (“GEM Listing Rules”) for the purpose of giving information with regard to Qianlong Technology International Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

Chiu Kam Hing, Kathy
Chang Long Teng
Cheong Chan Kei, Ernest

COMPANY 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

Chiu Kam Hing, Kathy (Chairman)
Chang Long Teng
Cheong Chan Kei, Ernest

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 1901-5
19th 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



A summary of the audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2004 together with the comparative figures for the corresponding period in 2003, and of the assets and liabilities of the Group as at 31 December 2004 and 2003 is set out as follows:

GROUP RESULTS

	Year Ended 31 December	
	2004 RMB'000	2003 RMB'000
Turnover	30,511	30,559
Profit before taxation	5,735	5,003
Taxation	(443)	(866)
Profit after taxation	5,292	4,137
Minority interests	6	1
Profit attributable to shareholders	5,298	4,138
Earnings per share-Basic (RMB cent)	2.52	1.97

GROUP ASSETS AND LIABILITIES

	Year Ended 31 December	
	2004 RMB'000	2003 RMB'000
Fixed assets	12,806	10,975
Investment in associates	189	786
Deferred tax	866	—
	13,861	11,761
Current Assets		
Inventories	61	156
Investments in securities	40,186	39,003
Trade and other receivables	3,138	3,455
Cash and cash equivalents	29,487	26,264
	72,872	68,878
Current Liabilities		
Trade and other payables	17,785	19,389
Taxation payable	592	242
	18,377	19,631
Net Current Assets	54,495	49,247
Minority interests	(33)	(36)
Net Assets	68,323	60,972
Share capital	22,420	22,420
Reserves	45,903	38,552
	68,323	60,972



On behalf of the board of Directors (The "Board"), I am pleased to present the Group's annual report for the year ended 31 December 2004.

FINANCIAL REVIEW

For the year ended 31 December 2004, the Group recorded a turnover of RMB30,511,000 (2003: RMB30,559,000) representing a decrease of approximately 0.2% as compared with that of the same period for the previous year. The Group recorded a net profit attributable to shareholders of RMB5,298,000 for the year of 2004, whereas a net profit attributable to shareholders of RMB4,138,000 was recorded for the same period in the previous year, representing an increase of approximately 28.0% as compared with that for the same period of the previous year. The increase in profit attributable to shareholders for the year ended 31 December 2004 was because the Group has earned RMB3,104,000 for the profit from investment securities.

PRODUCT DEVELOPMENT

In the first half year of 2004, the Group upgraded the Network Version of securities analysis software and launched a series of important new functions that meet the latest requirements of the securities investors, being the largest scale of upgrade in the Group's history.

1. Finance Living Broadcast Center

The Finance Living Broadcast Center is a totally new function of Qianlong end user securities analysis software providing an information platform with the reports and analysis from various information consultants. In this information platform, Today's Focus will pop up to show gusty and important living information, and Specific Stock Financial Review will appear in the form of an information radar graph.

2. Mobile Phone SMS Financing

Mobile Phone SMS Financing is a crossing platform message service system for securities. Investors may subscribe the SMS services which has abundant market information, announcements and forecast warning through Qianlong Dynamic Analysis system, Qianlong Exchanging Center or Qianlong website. This function is only available to the users of mobile phones which are equipped to receive Chinese messages.



3. Hong Kong Securities

Investors can read the historical data of the Hong Kong stock market using Qianlong Data Communication System, the same as the Shanghai and Shenzhen Stock Exchange. Investors can check the historical K Graph and varied technical analysis chart by inputting the stock code or abbreviated name in Pin Yin. If securities brokers have the legally authorized H Stock market information, the investors will read the Real-time information for Hong Kong Stocks. At the same time the securities brokers have the right to fix and control the numbers of end users of real-time stock market information.

4. In-line Consignment Function

We have increased the In-line Consignment function and will tailor this function according to securities brokers' different system data interface needs and we have already successfully implemented this function for one of the largest securities broker in the PRC - Shenyin & Wanguo Securities Co., Ltd.

5. Other new functions

- (1) In the technology analysis chosen cycle, Minute lines were put after the Date lines and other lines.
- (2) The information of current treasury bond interest was moved under the Announcement Information Menu.
- (3) The right-side information frame for specific stocks was adjusted to up and down frames. The up side is the index information for the specific stock and the down side is the index information for the whole market.

After propaganda and training, the upgraded new functions and excellent features have been greatly welcomed by the users. The Group continues to develop new productions or functions to keep its leading position in the market.



PROSPECTS

After hard efforts, the Group has made a great achievement on the policy to concentrate on core business development. The Group not only maintains its leading position in its traditional market place, that is network versions used for real-time transactions in the securities brokerage companies, but also continues to develop new on-line transaction products.

In accordance with the corporation's market strategy, the Group will expand training and education for clients and enhance their loyalty, and customize the large system business for the Group's clients to improve the technological status for the products. At the same time the Group will also develop information service and provide convenient and effective end user software for investors to keep abreast of market information and analyze data.

The Directors believe the Group's policy is effective and the Group's performance will continue to be improved and the prospects for the Group are more positive and brighter in 2005.

Liao Chao Ping

Chairman

Hong Kong, 23 March 2005



TURNOVER

Sales of computer software

A majority of the Group's business is derived from securities brokerage companies across the PRC. The Group's turnover of sales of computer software recorded an increase of approximately 15% to RMB2,624,000 in 2004 compared to that in the previous year. (2003: RMB 2,274,000)

Maintenance Service Fee

Maintenance Services Fee has decreased approximately 1.9% to RMB26,674,000 (2003: RMB27,196,000) compared to the same period in the previous year primarily because some securities brokerage companies have merged, or closed or ceased to use the Company's software. In addition, a few of clients have upgraded "Integration Version 100" from the previous "Integration Version" with a promotion package of 50% discount on the annual maintenance service fees.

Rental income from investment property

The Group has gained the net income of RMB 695,000 for the leasing property in 2004 (2003: RMB695,000). The Group has entered into a five years' contract with the leasees since the early of 2003, so the Group will get this rental income continuously in next three years.

ADMINISTRATIVE AND OTHER EXPENSES

The Group's administrative and other expenses increased approximately 6.5% from RMB 20,132,000 in 2003 to RMB 21,438,000 in 2004, mainly because Shanghai Qianlong Advanced Technology Company Limited, the subsidiary of the Company has expanded the scale, increased number of staff and set up more representative offices.

BOND INVESTMENT

In March 2003, one of the Group's subsidiaries, Shanghai Qianlong Advanced Technology Company Limited, invested RMB 35,000,000 in the Treasury Bond listed in Shanghai Stock Exchange with a fixed annual yield of 2.66%, and the accumulated interest income of RMB1,626,000 has already been recorded at the end of 31 December 2004.

As at 31 December 2004, the cash and cash equivalent of Shanghai Qianlong Advanced Technology Company Limited amounted to RMB 21,310,000, therefore it has sufficient working capital to operate the regular business of the Company.

DEPLOYMENT OF HUMAN RESOURCES

The total number of staff of the Group increased from 107 as at 31 December 2003 to 123 as at 31 December 2004. The Group offers a remuneration package by reference to prevailing market conditions and performance, qualifications and experience of individual employees. Other benefits for employees include a retirement benefit, a provident fund and a medical plan. In current year, the total cost for staff (including salary, bonus and other welfare) was approximately RMB11,814,000 (2003: RMB9,029,000)

CONTINGENT LIABILITIES

The Group did not have any contingent significant liabilities as at 31 December 2004 or as at 31 December 2003.

FINANCIAL RESOURCES, LIQUIDITY AND TREASURY POLICIES

Cash and bank balance of the Group as at 31 December 2004 were RMB 29,487,000 equivalent, representing the funds generated from the Group's operation. The Group had a working capital ratio of approximately 3.90:1.

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 rates of 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 wholly owned by the Company, 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 wholly owned by the Company, 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 is a wholly owned subsidiary of the Company, Worry-Free Consulting (Shanghai) Limited started its operation in May 2000 to establish retail outlets, so the Group could build up its domestic software distribution network in the PRC for its software products. The company remained dormant during the year.

Worry-Free Taipei Branch

Worry-Free Taipei Branch was set up in January 2001 and wholly owned by the Company, to provide after market securities analysis software to customers in Taiwan. It 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 information technology ("IT"), internet and high-technology industries.

Arrow Goal Enterprises Corporation

Arrow Goal Enterprises Corporation was established in British Virgin Islands in November 2000, and is owned as to 34.04% by the Group. It invests in Shanghai Hua Ding Financial Software Company Limited, which is engaged in 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 33.33% interest in July 2000, Shanghai Gloucester Waalker Investment Management Company Limited is engaged in business consulting, training, and human resource services.

EXECUTIVE DIRECTORS

Mr. Liao Chao Ping, aged 61, has extensive experience in real estate development. He is a director of Union Construction Company Limited (a company incorporated in Taiwan). Mr. Liao has been appointed as an executive Director on 28 October 2004 and the chairman of the Group on 10 January 2005.

Mr. Fan Ping Yi, aged 46, 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 20 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 46, 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 20 years of experience in the IT industry. Before joining the Group, Mr. Yang held senior management positions in various computer companies in Taiwan.

Mr. Chen Shen Tien, aged 47, is responsible for the Group's overall strategic planning and the relationship development of potential business opportunities. Mr. Chen has over 10 years experience in the IT industry. Mr. Chen resigned as the chairman of the Group on 10 January 2005.

Mr. Chen Ming Chuan, aged 40, has engaged in the IT industry over 20 years with intensive experience in development of securities analysis software. Mr. Chen will retire by rotation and being eligible, offer himself for election at the forthcoming annual general meeting of the Company.

Mr. Yu Shih Pi, aged 42, 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 retired by rotation as an executive Director at the annual general meeting of the Company held on 18 April 2004 and was reappointed as an executive director on 24 January 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chiu Kam Hing, Kathy, aged 56, has over 33 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 is the chairman of the Group's audit committee. Ms Chiu is one of the executive directors of Prime Investment Holdings Limited (Stock Code: 721) and also the independent non-executive director of B&S Entertainment Holdings Limited (Stock Code: 8167). Ms Chiu will retire by rotation and being eligible offer herself for election at the forthcoming annual general meeting of the Company.

Mr. Chang Long Teng, aged 45, has extensive experience in management and administration. He does not hold any directorship in other public listed companies. Mr. Chang was appointed as the independent non-executive director with effective on 28 October 2004.

Mr. Cheong Chan Kei, Ernest, aged 35, is an investment representative (HKSI). Mr. Cheong holds a bachelor degree of Arts from the University of Western Ontario. Mr. Cheong does not hold any directorship in other public listed companies. Mr. Cheong was appointed as the independent non-executive director with effective on 28 October 2004.

SENIOR MANAGEMENT

Mr. Du Hao, aged 36, is the executive deputy general manager of Shanghai Qianlong Advanced Technology Company Limited. He is responsible for the daily operation of Shanghai Qianlong Advanced Technology Company Limited. He joined the Group in 1993 and has over 11 years of experience in product research and development. He holds a master of science degree in electronic engineering from Fudan University.

Mr. Song Li Qun, aged 37, 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 10 years of experience in the IT industry.

Mr. Zhou Xiang, aged 34, is the head of technology and research and development ("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 10 years of experience in the IT industry.

Mr. Zhao Bing, aged 39, is the manager of sales and marketing management department responsible for sales and marketing planning of Shanghai Qianlong Advanced Technology Company Limited. He holds a master degree in marketing management from Jiaotong University, and has over 7 years of experience in sales and marketing planning.

Mr. Chen Gangliang, aged 32, is the manager of customers service department in Shanghai Qianlong Advanced Technology Company Limited responsible for the provision of service to all of the customers. He graduated from Shanghai University, and has more than 7 years of experience in after sales services.

QUALIFIED ACCOUNTANT

Mr. Ip Pui Lam, Arthur, aged 43, is the qualified accountant of the Group. He has over 12 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 Institute of Certified Public Accountants.

COMPANY SECRETARY

Mr. Chan Yik Wang, Andrew, aged 43, is the company secretary of the Group. He joined the Group in 1999. He holds a bachelor's degree in laws from the University of East Anglia of England and is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Chan is a qualified solicitor with over 14 years of experience in law practice.

COMPLIANCE OFFICER

Mr. Fan Ping Yi, aged 46, is the vice-chairman and an executive Director of the Group. He is responsible for the Group's overall strategic planning and implementation. He has over 20 years of experience in the IT industry. Before joining the Group, Mr. Fan held senior management positions in various software houses in Taiwan. Being a compliance officer, Mr. Fan is responsible for advising on and assisting the Board 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 Exchange.

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

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

The analysis of the principal activities of the Company and its subsidiaries during the financial year is set out in note 13 to the financial statements.

No geographical analysis is shown as the principal activities of the Group are mainly carried out in the 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	4%	
The largest supplier		28%
Five largest suppliers in aggregate		82%

At no time during the year have the Directors or any of their associates or any shareholders of the Company (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2004 and the state of affairs of the Company and the Group as at that date are set out in the accompanying financial statements on pages 22 to 63.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2004(2003: RMB Nil).

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 21 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2004 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 22 to the financial statements.

DIRECTORS

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

Executive directors

Liao Chao Ping	(<i>Chairman</i> , appointed as an executive director on 28 October 2004 and the chairman of the Group on 10 January 2005)
Fan Ping Yi	(<i>Vice chairman</i>)
Yang Ching Shou, Peter	(<i>Managing director</i>)
Chen Shen Tien	(resigned as the chairman of the Group on 10 January 2005)
Chen Ming Chuan	
Yu Shih Pi	(retired by rotation as an executive Director at the annual general meeting of the Company held on 18 April 2004 and reappointed as an executive Director on 24 January 2005)

Independent non-executive directors

Chiu Kam Hing, Kathy	
Chang Long Teng	(appointed on 28 October 2004)
Cheong Chan Kei, Ernest	(appointed on 28 October 2004)
Hsu Wen Huei	(retired by rotation at the annual general meeting on 18 April 2004)

In accordance with article 116 of the Company's articles of association, Mr. Chen Ming Chuan and Ms. Chiu Kam Hing, Kathy will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Biographical details of the Directors are set out on pages 10 and 11 of this annual report. Details of the Directors' remunerations are set out in note 6 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with the executive Directors for a term of two years and shall continue thereafter until terminated by either party giving to the other at least three months prior notice in writing.

Save for the aforesaid, none of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept pursuant to Section 352 of the SFO or otherwise notified to the Company and the Exchange pursuant to the required standard of dealing by the Directors under Rule 5.46 of the GEM Listing Rules, were as follows:

Name of directors	Type of Interests	Number of shares held	Percentage of the Company's issued share capital
Liao Chao Ping	Personal	5,000,000	2.375%
Chen Shen Tien	Corporate (<i>note (i) and (ii)</i>)	40,250,000	19.121%
Fan Ping Yi	Corporate (<i>note (i) and (ii)</i>)	24,500,000	11.639%
Yang Ching Shou, Peter	Corporate (<i>note (i) and (ii)</i>)	24,500,000	11.639%
Chen Ming Chuan	Corporate (<i>note (i) and (ii)</i>)	18,375,000	8.729%
Yu Shih Pi	Corporate (<i>note (i) and (ii)</i>)	14,875,000	7.067%

Note: (i) As at 31 December 2004, 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 5% or more of the issued share capital of the Company.

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept pursuant to section 352 of the SFO or otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by the Directors under Rule 5.46 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' 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 2004, no option has been granted to any employee of the Company or Director 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 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.

SUBSTANTIAL INTERESTS IN THE SHARE AND UNDERLYING SHARES

As at 31 December 2004, in addition to those interests as disclosed above in respect of the Directors, the interests or short position of the substantial shareholders of the Company as recorded in the register required to be maintained under Section 336 of the SFO, the Company had been notified of the following interests, being 5% or more in the issued share capital of the Company.

Name	Number of the shares held	Percentage of the Company's issued share capital
Red Coral Financial Limited	40,250,000	19.121%
Sapphire World Investment Limited	24,500,000	11.639%
Legend Isle Technology Limited	24,500,000	11.639%
Star Channel Technology Limited	18,375,000	8.729%
Star Orient Global Limited	14,875,000	7.067%

Note: As at 31 December 2004, 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.

Save as disclosed above, the Directors were not aware of any other person (other than the Directors or the chief executives of the Company) who had interests or short positions in the shares and underlying shares of the listed issuer as recorded in the register required to be kept under section 336 of SFO.

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 any Director 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.

Pursuant to the agreement dated 21 November 2003 entered into between the Company and CSC, CSC has received and will receive a fee for acting as the Company's retained sponsor for the period from 1 January 2004 to 31 December 2005.

As at 31 December 2004, neither CSC nor its directors, employees or associates have any interest in the share capital of the Company.

AUDIT COMMITTEE

The Group established an audit committee in 1999 with written terms of reference pursuant to GEM listing Rules. The audit committee comprises 3 independent non-executive Directors namely, Ms. Chiu Kam Hing, Kathy, Mr. Chang Long Teng and Mr. Cheong Chan Kei, Ernest. Ms. Chiu Kam Hing, Kathy is the chairman of the audit committee. Mr. Hsu Wen Huei has retired by rotation as an independent non-executive Director at the annual general meeting of the Company on 18 April 2004. Mr. Chang Long Teng and Mr. Cheong Chan Kei, Ernest were appointed as the independent non-executive Directors and audit committee members with effective on 28 October 2004 pursuant to Rule 5.08 of the GEM Listing Rules.

The audit committee has constantly made its duties to review and supervise the financial reporting process and internal control systems of the Group, and to provide advice and comments to the Board. The audit committee has reviewed the Group's audited consolidated results and annual report for the year ended 31 December 2004.

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 64 to 65 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 to the financial statements.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended 31 December 2004 with the board practices and procedures as set out in Rules of 5.34 to 5.45 (if applicable) of GEM Listing Rules, which applied before the amendments of GEM Listing Rules relating to the code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Board will prepare a Corporate Governance Rules for the financial year ending 31 December 2005.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2004, the directors are not aware of any business or interest of the directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, the Company had adopted a code of conduct regarding of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

Liao Chao Ping

Chairman

Hong Kong, 23 March 2005



To the shareholders of
Qianlong Technology International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare 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, in accordance with section 141 of the Hong Kong Companies Ordinance, 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 Institute of Certified Public 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 2004 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 2005



Consolidated Income Statement

For the year ended 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Turnover	2	30,511	30,559
Cost of sales		<u>(9,235)</u>	<u>(10,331)</u>
Gross profit		21,276	20,228
Other revenue	3	5,483	5,588
Other net gains/(losses)	3	1,011	(54)
Distribution costs		(6,383)	(5,762)
Administrative expenses		(15,054)	(14,288)
Other operating expenses		<u>(1)</u>	<u>(82)</u>
Profit from operations		6,332	5,630
Share of losses of associates		<u>(597)</u>	<u>(627)</u>
Profit from ordinary activities before taxation	4	5,735	5,003
Income tax	5(a)	<u>(443)</u>	<u>(866)</u>
Profit from ordinary activities after taxation		5,292	4,137
Minority interests		<u>6</u>	<u>1</u>
Profit attributable to shareholders	8	<u>5,298</u>	<u>4,138</u>
Earnings per share - basic	10	<u>2.52 cents</u>	<u>1.97 cents</u>

The notes on pages 27 to 63 form part of these financial statements.





Consolidated Balance Sheet

At 31 December 2004
(Expressed in Renminbi)

	Note	2004		2003	
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets					
– Investment property	12(a)		11,228		9,364
– Other property, plant and equipment	12(a)		1,578		1,611
			<u>12,806</u>		<u>10,975</u>
Interest in associates	14		189		786
Deferred tax assets	20		866		—
			<u>13,861</u>		<u>11,761</u>
Current assets					
Inventories	16	61		156	
Investment in securities	15	40,186		39,003	
Trade and other receivables	17	3,138		3,455	
Cash and cash equivalents	18	29,487		26,264	
			<u>72,872</u>		<u>68,878</u>
Current liabilities					
Trade and other payables	19	17,785		19,389	
Tax payable	5(c),20(a)	592		242	
			<u>18,377</u>		<u>19,631</u>
Net current assets			<u>54,495</u>		<u>49,247</u>
Total assets less current liabilities			<u>68,356</u>		<u>61,008</u>
Minority interests			<u>(33)</u>		<u>(36)</u>
Net assets			<u>68,323</u>		<u>60,972</u>
Capital and reserves					
Share capital	21		22,420		22,420
Reserves	22(a)		45,903		38,552
			<u>68,323</u>		<u>60,972</u>

Approved and authorised for issue by the board of directors on 23 March 2005.

Liao Chao Ping
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 27 to 63 form part of these financial statements.



B

alance Sheet

At 31 December 2004
(Expressed in Renminbi)

	Note	2004		2003	
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets	12(b)		—		—
Investment in subsidiaries	13		20,084		18,003
			20,084		18,003
Current assets					
Trade and other receivables	17	199		199	
Cash and cash equivalents	18	5,121		4,773	
		5,320		4,972	
Current liabilities					
Trade and other payables	19	885		865	
Amounts due to subsidiaries		351		358	
		1,236		1,223	
Net current assets			4,084		3,749
Net assets			24,168		21,752
Capital and reserves					
Share capital	21		22,420		22,420
Reserves/(deficit)	22(b)		1,748		(668)
			24,168		21,752

Approved and authorised for issue by the board of directors on 23 March 2005.

Liao Chao Ping
Chairman

Fan Ping Yi
Vice Chairman

The notes on pages 27 to 63 form part of these financial statements.

C

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Shareholders' equity at 1 January		<u>60,972</u>	<u>56,547</u>
Surplus on revaluation of investment property	22(a)	1,864	107
Exchange differences on translation of the financial statements of foreign entities	22(a)	189	180
Net gains not recognised in the income statement		<u>2,053</u>	<u>287</u>
Net profit for the year		<u>5,298</u>	<u>4,138</u>
Shareholders' equity at 31 December		<u>68,323</u>	<u>60,972</u>

The notes on pages 27 to 63 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Operating activities			
Profit from ordinary activities before taxation		5,735	5,003
Adjustments for:			
— Depreciation		638	681
— Deficit on revaluation of investment property		—	(240)
— Impairment loss on fixed assets		—	265
— (Written back)/provision for diminution on investment in securities		(562)	2,639
— Unrealised gain on investment in securities carried at fair value		(621)	—
— Interest income		(1,024)	(1,085)
— Share of losses of associates		597	627
— Loss/(gain) on disposal of fixed assets		48	(2,254)
Operating profit before changes in working capital		4,811	5,636
Decrease in inventories		95	41
Decrease in trade and other receivables		317	1,403
Decrease in trade and other payables		(1,604)	(496)
Cash generated from operations		3,619	6,584
Tax paid			
— Tax paid		(1,187)	(752)
— Tax refund		228	—
Net cash from operating activities		2,660	5,832
Investing activities			
Payment for purchase of fixed assets		(662)	(307)
Proceeds from sales of fixed assets		13	2,299
Payment for purchase of investment in securities		(15,906)	(35,667)
Proceeds from sale of investment in securities		15,906	13,024
Interest received		1,024	1,085
Net cash from/(used in) investing activities		375	(19,566)
Net increase/(decrease) in cash and cash equivalents			
		3,035	(13,734)
Effect of foreign exchange rates changes		188	180
Cash and cash equivalents at 1 January		26,264	39,818
Cash and cash equivalents at 31 December	18	29,487	26,264

The notes on pages 27 to 63 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 Institute of Certified Public 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.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 and the marking to market of investment in securities as explained in the accounting policies set out below.

(c) *Subsidiaries*

A subsidiary, in accordance with the Hong Kong Companies Ordinance, 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 board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from 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.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

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

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive goodwill charged during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associates, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associates.

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.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(j)).

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

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

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

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(j)) is included in the carrying amount of the interest in associates.

(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.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investments in securities (Continued)

- (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.

(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(i)) and impairment losses (see note 1(j)).
- (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 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 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.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

- (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.

(h) Leased assets

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. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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

(j) 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 in the income statement, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable 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.

(k) 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)

(k) 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.

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, 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.

(m) 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)

(m) 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 limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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)

(m) 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.

(n) 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)

(o) 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 fee are recognised as income on an accrual basis by reference to the stage of completion of the related services.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in 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 asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) 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)

(p) Translation of foreign currencies

The Company's and the Group's operating subsidiaries' financial records are maintained and the financial information set out in these financial statements are stated in Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of the Group's 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.

(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.

(r) Employee benefits

- (i) Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Employees of the Group are either members of life insurance policies managed by an insurance company or a central pension scheme operated by local government. The Group pays the premiums of the life insurance policies on behalf of the employees and makes contributions to the central pension scheme according to the requirements set by local government. The premiums and contributions are charged to income statement as incurred.

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

- (iii) When the Group grants employees options to acquire shares of the Company at nil consolidation, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(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.

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.

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(Expressed in Renminbi)

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 13 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, and rental income. 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:

	2004	2003
	RMB'000	RMB'000
Maintenance service fees	26,674	27,196
Sale of computer software	2,624	2,274
Consulting service fees	313	334
Gross rental from investment properties	695	695
Others	205	60
	30,511	30,559

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

	2004	2003
	RMB'000	RMB'000
Other revenue		
Value added tax refund (Note)	3,922	4,025
Interest income	1,189	1,085
Subsidy income	350	343
Miscellaneous	22	135
	<u>5,483</u>	<u>5,588</u>
Other net gains/(losses)		
Net unrealised gain/(loss) of investment in securities carried at fair value	1,183	(2,639)
(Loss)/gain on disposal of fixed assets	(48)	2,254
Surplus on revaluation of an investment property	—	240
Impairment loss of fixed assets	—	(265)
(Loss)/gain on sale of accessories	(124)	356
	<u>1,011</u>	<u>(54)</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 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION**

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

	2004	2003
	RMB'000	RMB'000
(a) Staff costs:		
Contributions to central pension scheme	1,775	1,474
Salaries, wages and other benefits	10,039	7,555
	<u>11,814</u>	<u>9,029</u>
(b) Other items:		
Cost of inventories	427	429
Maintenance service expenses	8,470	9,903
Research and development costs	3,520	2,975
Depreciation	638	681
Operating lease charges - properties	2,235	1,524
Auditors' remuneration		
— provision for the year	660	665
	<u>660</u>	<u>665</u>

(Expressed in Renminbi)

5 TAXATION

(a) Taxation in the consolidated income statement represents:

	2004 RMB'000	2003 RMB'000
Current tax – Provision for PRC		
Foreign Enterprise Income Tax		
Tax for the year	1,316	866
Tax refund	(228)	—
Underprovision in respect of prior years	221	—
	<u>1,309</u>	<u>866</u>
Deferred tax		
Origination and reversal of temporary differences	(866)	—
	<u>443</u>	<u>866</u>

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.

A Group's subsidiary – Shanghai Qianlong Advanced Technology Company Limited – operating in the PRC was adjudicated as an Advanced Software Enterprise by the PRC government authority in December 2003. In accordance with a notice issued by the PRC tax bureau on 26 April 2004, the subsidiary is entitled to 10% Foreign Enterprise Income Tax rate for 2003 tax year (instead of the tax rate of 13.5%) and the overpaid income tax was refunded by the local tax bureau in 2004.

(Expressed in Renminbi)

5 TAXATION (Continued)

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

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before tax	<u>5,735</u>		<u>5,003</u>	
Notional tax on profit before tax, calculated at the rates applicable profits in the countries concerned	1,548	27.0	675	13.5
Tax effect of non-deductible expenses	738	12.9	1,192	23.8
Tax effect of non-taxable revenue	(2,064)	(36.0)	(1,001)	(20.0)
Under-provision in prior years	<u>221</u>	<u>3.9</u>	<u>—</u>	<u>—</u>
Actual tax expense	<u>443</u>	<u>7.8</u>	<u>866</u>	<u>17.3</u>

(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 current rate of taxation.

(d) The standard income tax rate applicable to Shanghai Qianlong Advanced Technology Company Limited is 27%. As a qualified advanced technology enterprise, Shanghai Qianlong Advanced Technology Company Limited was entitled to a preferential tax rate of 13.5% from year 2001 and 2003 (i.e. 50% reduction of the standard tax rate).

6 DIRECTORS' REMUNERATION

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

	2004	2003
	RMB'000	RMB'000
Directors' fees	343	416
Salaries and other emoluments	2,147	2,078
Retirement scheme contributions	44	24
	<u>2,534</u>	<u>2,518</u>

(Expressed in Renminbi)

6 DIRECTORS' REMUNERATION (Continued)

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

	2004	2003
	RMB'000	RMB'000
Executive directors	438	422
	423	422
	422	421
	421	421
	415	416
	72	—
Independent non-executive directors	207	208
	64	208
	36	—
	36	—
	2,534	2,518

The executive directors have entered into a service contract with the Company for a term of two years and these contracts shall continue thereafter until terminated by either party giving to the other at least three months' prior notice in writing. Based on the terms of these service contracts, each of the directors are entitled to a monthly salary, an annual bonus payable on 31 December in each year, which is equivalent to the average of one month's salary earned in the previous twelve months, and gratuitous year end bonus in respect of any financial year 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)

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2003: all) are directors whose emoluments are disclosed in note 6 above.

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of RMB2,416,000 (2003: loss of RMB2,789,000) which has been dealt with in the financial statements of the Company.

9 DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004 (2003: RMB Nil).

10 EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB5,298,000 (2003: RMB4,138,000) and 210,500,000 ordinary shares (2003: 210,500,000) in issue during the year.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2004 and 2003.

11 SEGMENT REPORTING

No separate segment information is presented as the Group has only one business segment, which is the distribution and maintenance of computer software.

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.

(Expressed in Renminbi)

12 FIXED ASSETS

(a) The Group

	Buildings	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Motor vehicles	Sub-total	Investment property	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:								
At 1 January 2004	137	641	2,407	1,065	649	4,899	9,364	14,263
Exchange adjustment	—	(22)	129	(104)	—	3	—	3
Additions	—	—	645	17	—	662	—	662
Disposals	—	—	(160)	(448)	—	(608)	—	(608)
Surplus on revaluation	—	—	—	—	—	—	1,864	1,864
At 31 December 2004	137	619	3,021	530	649	4,956	11,228	16,184
Accumulated depreciation:								
At 1 January 2004								
—Accumulated depreciation	50	641	1,360	723	249	3,023	—	3,023
—Impairment loss	87	—	119	59	—	265	—	265
Exchange adjustment	—	(22)	9	12	—	(1)	—	(1)
Charge for the year	—	—	453	53	132	638	—	638
Written back on disposals	—	—	(144)	(403)	—	(547)	—	(547)
At 31 December 2004	137	619	1,797	444	381	3,378	—	3,378
Net book value:								
At 31 December 2004	—	—	1,224	86	268	1,578	11,228	12,806
At 31 December 2003	—	—	928	283	400	1,611	9,364	10,975
Representing:								
Cost	137	619	3,021	530	649	4,956	—	4,956
Valuation - 2004	—	—	—	—	—	—	11,228	11,228
	137	619	3,021	530	649	4,956	11,228	16,184

(Expressed in Renminbi)

12 FIXED ASSETS (Continued)

Impairment loss

A provision for impairment of RMB 265,000 has been made to write down the carrying value of the Group's fixed assets in 2003, to their recoverable amounts based on the estimated discounted future cash flows that can be generated from the assets over their life time.

(b) The Company

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:			
At 1 January 2004	216	111	327
Exchange adjustment	3	1	4
	<u>219</u>	<u>112</u>	<u>331</u>
At 31 December 2004	219	112	331
	<u>219</u>	<u>112</u>	<u>331</u>
Accumulated depreciation:			
At 1 January 2004	216	111	327
Exchange adjustment	3	1	4
	<u>219</u>	<u>112</u>	<u>331</u>
At 31 December 2004	219	112	331
	<u>219</u>	<u>112</u>	<u>331</u>
Net book value:			
At 31 December 2004	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2003	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>

As at 31 December 2004, the above fixed assets of the Company that have been fully depreciated are still in use.

(Expressed in Renminbi)

12 FIXED ASSETS (Continued)

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

	The Group	
	2004 RMB'000	2003 RMB'000
In PRC		
Medium-term leases	<u>11,228</u>	<u>9,364</u>

(d) The Group's investment property was revalued at 31 December 2004 by an independent firm of surveyors, Shanghai Zhengda Assets Appraisal Company Limited, an independent and Certified Public valuer registered in the PRC, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The revaluation surplus of RMB1,864,000 has been credited to the revaluation reserve (note 22(a)).

(e) The Group leases out investment property under operating lease. 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 amounts of investment properties of the Group held for use in operating leases were RMB11,228,000 (2003: RMB9,364,000).

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

	2004 RMB'000	2003 RMB'000
Within 1 year	732	732
After 1 year but within 5 years	<u>1,524</u>	<u>2,256</u>
	<u>2,256</u>	<u>2,988</u>

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13 INVESTMENT IN SUBSIDIARIES

	The Company	
	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	7,218	7,231
Amounts due from subsidiaries	36,157	36,225
Less: Impairment loss	(23,291)	(25,453)
	<u>20,084</u>	<u>18,003</u>

Details of the subsidiaries at 31 December 2004 are as follows. The class of shares held is ordinary unless otherwise stated.

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

*(Expressed in Renminbi)***13 INVESTMENT IN SUBSIDIARIES** *(Continued)*

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 the related maintenance services
Worry-free Technology Holdings Limited	BVI (limited company)	100	—	US\$500,000	Investment holding
Worry-free Consulting (Shanghai) Limited	PRC (wholly foreign-owned enterprise)	—	100	US\$1,500,000	Dormant
Qianlong Internet Holdings Limited	BVI (limited company)	100	—	US\$50,000	Investment holding
Chien Long Investment Company Limited	Taiwan (limited company)	—	99.3	NTD7,338,010	Investment holding

*(Expressed in Renminbi)***14 INTEREST IN ASSOCIATES**

	The Group	
	2004	2003
	RMB'000	RMB'000
Share of net assets	189	786
Goodwill	398	398
Accumulated amortisation of goodwill	(160)	(160)
Impairment loss of goodwill	(238)	(238)
	189	786

Details of the associates at 31 December 2004 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 Waalker Investment Management Company Limited	PRC (equity joint venture)	—	33.33%	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)

15 INVESTMENT IN SECURITIES

	The Group	
	2004	2003
	RMB'000	RMB'000
Trading securities		
— Listed debt securities	32,456	34,377
— Unlisted equity securities	7,730	4,626
	40,186	39,003

All securities are held outside Hong Kong.

16 INVENTORIES

	The Group	
	2004	2003
	RMB'000	RMB'000
Inventories comprise the following:		
Accessories	56	150
Finished goods	5	6
	61	156

Included in finished goods are inventories of RMB5,000 (2003: RMB6,000) 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)

17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	320	225	—	63
Prepayments, deposits and other receivables	2,818	3,230	199	136
	<u>3,138</u>	<u>3,455</u>	<u>199</u>	<u>199</u>

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Current	220	149
1 to 3 months overdue	5	67
More than 3 months overdue but less than 12 months overdue	20	9
More than 12 months	75	—
	<u>320</u>	<u>225</u>

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

*(Expressed in Renminbi)***18 CASH AND CASH EQUIVALENTS**

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits with banks	13,725	5,114	4,255	3,637
Cash at bank and in hand	15,762	21,150	866	1,136
	29,487	26,264	5,121	4,773

19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	702	827	—	—
Other creditors and accruals	2,964	3,607	885	865
Deferred revenue	14,119	14,955	—	—
	17,785	19,389	885	865

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.

*(Expressed in Renminbi)***20 INCOME TAX IN THE BALANCE SHEET**

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC Foreign Enterprises Income Tax for the year	1,316	994	—	—
Tax paid	(724)	(752)	—	—
	592	242	—	—
Balance of income tax provision relating to prior years	—	—	—	—
	592	242	—	—

(Expressed in Renminbi)

20 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Revaluation deficit on investment in securities	
	RMB'000	
At 1 January 2004		—
Credited to consolidated income statement		866
		<u>866</u>
At 31 December 2004		<u>866</u>
		<u>866</u>
	The Group	
	2004	2003
	RMB'000	RMB'000
Net deferred tax assets recognised on the balance sheet	<u>866</u>	<u>—</u>

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of RMB4,004,000 (2003: RMB5,678,000), as the subsidiaries with such losses are dormant and as there is only a five year time limit on the carryforward of such losses.

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21 SHARE CAPITAL

	2004		2003	
	RMB'000		RMB'000	
<i>Authorised:</i>				
1,000,000,000 ordinary shares of HK\$0.10 each	<u>106,510</u>		<u>106,510</u>	
	2004		2003	
	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)

21 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 2004, 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)

22 RESERVES(a) *The Group*

	Share premium	Exchange reserve	Enterprise		Accumulated losses	Merger reserve	Revaluation reserve	Total
			General reserve	expansion fund				
	RMB'000 (Note (i))	RMB'000	RMB'000 (Note (ii))	RMB'000 (Note (iii))	RMB'000	RMB'000 (Note (v))	RMB'000 (Note (vi))	RMB'000
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	<u>33,124</u>	<u>4</u>	<u>6,377</u>	<u>—</u>	<u>(24,825)</u>	<u>23,765</u>	<u>107</u>	<u>38,552</u>
At 1 January 2004	33,124	4	6,377	—	(24,825)	23,765	107	38,552
Profit for the year	—	—	—	—	5,298	—	—	5,298
Exchange differences on translation	—	189	—	—	—	—	—	189
Surplus on revaluation of investment property	—	—	—	—	—	—	1,864	1,864
Transfer from profit to general reserve	—	—	313	—	(313)	—	—	—
At 31 December 2004	<u>33,124</u>	<u>193</u>	<u>6,690</u>	<u>—</u>	<u>(19,840)</u>	<u>23,765</u>	<u>1,971</u>	<u>45,903</u>

Included in the figure for the accumulated losses is an amount of RMB4,520,000 (2003: RMB3,922,000) being the accumulated losses attributable to associates and an amount of RMB17,872,000 (2003: RMB13,950,000), being the aggregate of 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)

22 RESERVES (Continued)

(b) The Company

	Share premium	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
	(Note (i))	(Note (iv))	
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	33,124	(33,792)	(668)
At 1 January 2004	33,124	(33,792)	(668)
Profit for the year	—	2,416	2,416
	<u>33,124</u>	<u>(31,376)</u>	<u>1,748</u>
At 31 December 2004	<u>33,124</u>	<u>(31,376)</u>	<u>1,748</u>

Note:

(i) Share premium

The application of the share premium account is governed by Section 148(a) of the Company's Articles of Association and the Cayman Islands Companies Law (Revised), which provides that the share premium account may be applied in paying distributions or dividends to members, provided immediately following the date on which distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) General reserve

According to the relevant rules and regulations in the PRC, each of the Group's PRC subsidiaries shall provide 10% of the annual net income after tax, based on the subsidiary's PRC statutory accounts, as a general reserve, until the balance reaches 50% of the respective subsidiary's registered capital. Further appropriations can be made at the directors' decisions.

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

(Expressed in Renminbi)

22 RESERVES (Continued)

(iii) Enterprise expansion fund

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

(iv) Accumulated losses

At 31 December 2004, the Company had accumulated losses of RMB31,376,000 (2003: RMB33,792,000), 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 RMB1,748,000 (2003: RMB Nil).

(v) Merger reserve

The merger reserve 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.

(vi) Revaluation reserve

The revaluation reserve in respect of investment property is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B (2) of the Hong Kong Companies Ordinance.

(Expressed in Renminbi)

23 LEASE COMMITMENTS

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,322	1,932	173	231
After 1 year but within 5 years	33	959	—	173
	1,355	2,891	173	404

The Group leases a number of properties under operating leases, which typically 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.

24 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% 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.

25 COMPARATIVE FIGURES

The comparative figures of 2003 represent figures for the year from 1 January to 31 December 2003. Certain items in the financial statements for the year 2003 have been reclassified to facilitate comparison.

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Five-year Financial Summary

(Expressed in Renminbi)

	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000 (Note)
Consolidated income statement					
Turnover	30,511	30,559	33,248	40,640	46,713
Cost of sales	(9,235)	(10,331)	(13,564)	(13,733)	(18,005)
	21,276	20,228	19,684	26,907	28,708
Other revenue	5,483	5,588	5,589	8,092	7,155
Other net gain/(losses)	1,011	(54)	(886)	(3,677)	—
Distribution costs	(6,383)	(5,762)	(6,965)	(7,114)	(3,569)
Administrative expenses	(15,054)	(14,288)	(22,758)	(36,245)	(23,294)
Restructuring costs	—	—	(6,918)	—	—
Other operating expenses	(1)	(82)	(541)	(1,043)	(492)
Share of losses of associates	(597)	(627)	(1,233)	(954)	(1,108)
Profit/(loss) from ordinary activities before taxation	5,735	5,003	(14,028)	(14,034)	7,400
Taxation	(443)	(866)	(830)	(881)	(2,355)
Profit/(loss) from ordinary activities after taxation	5,292	4,137	(14,858)	(14,915)	5,045
Minority interests	6	1	(21)	2	—
Profit/(loss) attributable to shareholders	5,298	4,138	(14,879)	(14,913)	5,045
Dividends attributable to the year	—	—	—	—	4,462
Earnings/(loss) per share — basic	2.52 cents	1.97 cents	(7.07 cents)	(7.08 cents)	2.40 cents

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ive-year Financial Summary

(Expressed in Renminbi)

	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000 (Note)
Consolidated balance sheet					
Fixed assets	12,806	10,975	11,312	7,308	9,667
Other non-current assets	1,055	786	7,388	10,322	5,149
Current assets	72,872	68,878	57,897	76,244	98,502
Current liabilities	(18,377)	(19,631)	(20,013)	(22,431)	(22,299)
Total assets less current liabilities	68,356	61,008	56,584	71,443	91,019
Minority interests	(33)	(36)	(37)	(16)	(19)
Net assets	68,323	60,972	56,547	71,427	91,000
Share capital	22,420	22,420	22,420	22,420	22,420
Reserves	45,903	38,552	34,127	49,007	68,580
Owners' equity	68,323	60,972	56,547	71,427	91,000

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 Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Saturday, 14 May 2005 at 2:00p.m. for the following purpose:

1. To receive and consider the audited financial statements and the reports of the directors and the auditors of the Company for the year ended 31 December 2004.
2. To approve the payment of a final dividend for the year ended 31 December 2004 (if any).
3. To re-elect directors of the Company (the “Directors”) and authorise the board of Directors (the “Board”) to fix the directors’ remuneration.
4. To re-appoint KPMG as the auditors of the Company and authorise the Board to fix their 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 and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors 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 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 the exercise of options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Right Issue (as hereafter defined); 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 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% 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 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% 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 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 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 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 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 applicable to the Company).

(2) **“That:**

- (a) the exercise by the Directors during the Relevant Period of all powers of the Company to purchase its shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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 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 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%, of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing 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 articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in a general meeting revoking or varying the authority given to the Directors by this Resolution.”

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Notice of Annual General Meeting

- (3) “**That** the Directors 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
Qianlong Technology
International Holdings Limited
Liao Chao Ping
Chairman

23 March 2005

Registered Office:

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Attorneys-at-law
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Cayman Islands,
British West Indies

Head Office and Principal Place of Business:

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

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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 Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later 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 Growth Enterprise Market of the Stock Exchange. 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 of the Company.