



成都托普科技股份有限公司

CHENGDU TOP SCI-TECH COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Third Quarterly Report 2002

** For identification purposes only*

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

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

THIRD QUARTERLY RESULTS

The board of directors (the “Board”) of Chengdu Top Sci-Tech Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 30 September 2002 and the comparative figures for the corresponding period in 2001 as follows:

	Note	For the nine months ended 30 September		For the three months ended 30 September	
		2002 (unaudited) RMB'000	2001 (unaudited) RMB'000	2002 (unaudited) RMB'000	2001 (unaudited) RMB'000
Turnover	3	80,481	83,227	31,685	13,861
Cost of sales		(58,772)	(46,790)	(26,970)	(10,429)
Amortization of intangible assets		(10,833)	(10,833)	(3,611)	(3,611)
Gross profit/(loss)		10,876	25,604	1,104	(179)
Other revenue	4	3,672	2,042	1,030	907
Distribution costs		(4,831)	(4,059)	(1,832)	(1,475)
Administrative expenses		(5,875)	(4,676)	(1,551)	(537)
Other operating expenses		(241)	(693)	(88)	(443)
Profit/(loss) from operations		3,601	18,218	(1,337)	(1,727)
Finance costs		(1,438)	(1,513)	(361)	(539)
Income from investment securities		705	—	—	—
Subsidy income	5	3,387	13,549	—	4,995
Profit/(loss) before taxation		6,255	30,254	(1,698)	2,729
Income tax expenses	6(a)	(1,971)	(4,697)	455	(342)
Profit/(loss) after taxation		4,284	25,557	(1,243)	2,387
Minority interests		(885)	—	(551)	—
Profit/(loss) attributable to shareholders		3,399	25,557	(1,794)	2,387
Basic earnings/ (loss) per share	7	RMB0.005	RMB0.0411	(RMB0.0027)	RMB0.0035

MOVEMENT IN RESERVES

The Group's movement in reserves are as follows:

	Capital surplus (unaudited) RMB'000	Revaluation surplus (unaudited) RMB'000	Statutory surplus reserve (unaudited) RMB'000	Statutory public welfare fund (unaudited) RMB'000	Discretionary surplus reserve (unaudited) RMB'000	Retained earnings (unaudited) RMB'000	Total (unaudited) RMB'000
As at 1 January 2001	(347)	39,485	13,522	7,936	10,220	63,032	133,848
Issue of H shares	96,754	—	—	—	—	—	96,754
Profit attributable to shareholders	—	—	—	—	—	25,557	25,557
Transfer to reserves	—	—	2,683	1,342	—	(4,025)	—
As at 30 September 2001	<u>96,407</u>	<u>39,485</u>	<u>16,205</u>	<u>9,278</u>	<u>10,220</u>	<u>84,564</u>	<u>256,159</u>
As at 1 January 2002	96,407	39,485	17,136	9,743	10,220	86,198	259,189
Profit attributable to shareholders	—	—	—	—	—	3,399	3,399
Transfer to reserves	—	—	1,058	529	—	(1,587)	—
Dividend (Note 8(b))	—	—	—	—	—	(13,520)	(13,520)
As at 30 September 2002	<u>96,407</u>	<u>39,485</u>	<u>18,194</u>	<u>10,272</u>	<u>10,220</u>	<u>74,490</u>	<u>249,068</u>

NOTES:

1. **Organisation**

The Company was incorporated in the People's Republic of China as a joint stock limited liability company on 24 January 1993 and the Company's H Shares were successfully listed on GEM on 30 March 2001.

2. **Basis of preparation and principal accounting policies**

The Group's unaudited consolidated results have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong and with the disclosure requirements of the Rules Governing the Listing Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The principal accounting policies adopted in the accounts are consistent with those used in the annual financial statements for the year ended 31 December 2001 of the Group.

3. **Turnover**

The turnover of the Group by reference to the categories of major products is analyzed as follows:

	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TS'98 Tax Management Information System	24,696	26,404	9,580	3,848
TPHMIS Housing Reform Management Information System	15,986	22,799	5,850	1,283
LED Display Control System	20,318	17,865	7,435	1,666
Government Administration System	17,027	12,353	7,366	6,601
Other solution systems	2,454	3,806	1,454	463
Total	<u>80,481</u>	<u>83,227</u>	<u>31,685</u>	<u>13,861</u>

4. **Other revenue**

	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	1,171	1,094	421	334
Interest income	1,670	495	369	164
Others	831	453	240	409
	<u>3,672</u>	<u>2,042</u>	<u>1,030</u>	<u>907</u>

5. **Subsidy income**

	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial refund (a)	2,172	6,066	—	4,251
Tax refund (b)	1,215	7,483	—	744
	<u>3,387</u>	<u>13,549</u>	<u>—</u>	<u>4,995</u>

- (a) Pursuant to Jin Cai Fa [1998] No. 10 and Jin Cai Fa [1999] No. 22 issued on 8 April 1998 and 1 June 1999 respectively by the Finance Bureau of Jin Niu District of Chengdu City, in order to support the development of the Company, the Company is entitled to a financial refund based on the conditions as stipulated in the notices. The financial refund is recorded as subsidy income and is recognised on cash basis. According to Circular Guo Fa [2000] No. 2 issued by the State Council in January 2000, the above-mentioned financial refund would require approval from the State Council or it will cease to be available. Therefore, there is no assurance that the Company can enjoy such financial refund in the future.
- (b) In accordance with Cai Shui [2000] No. 25 issued on 22 September 2000 by the Ministry of Finance and State Administration for Taxation, the Company is entitled to a reduced VAT rate of 3% for the sales of certain approved software products. The Company is required to pay the VAT at normal rate of 17%, and the VAT paid in excess of the VAT computed at the reduced rate will be refunded to the Company. The refund is recorded as subsidy income and is recognised on cash basis.

6. Taxation

(a) Enterprise income tax ("EIT")

According to the PRC relevant tax regulations, a New and High Technology Enterprise operating in a State Level New and High Technology Development Zone ("NHTDZ") is entitled to a reduced EIT rate of 15%. The Company is recognized as a New and High Technology Enterprise and is registered in Chengdu NHTDZ. Accordingly, the Company is subject to EIT at 15%.

The subsidiaries of the Company are subject to EIT at 33%.

The Group did not have any Hong Kong profits tax liabilities as it did not earn any income subject to Hong Kong profits tax.

Details of EIT charged during the relevant periods are as follows:

	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation	2,254	4,775	(396)	367
Provision for (write-back of) deferred taxation	<u>(283)</u>	<u>(78)</u>	<u>(59)</u>	<u>(25)</u>
Total	<u>1,971</u>	<u>4,697</u>	<u>(455)</u>	<u>342</u>

There were no material unprovided deferred tax liabilities as at 30 September 2002 (2001: Nil).

(b) Value-added tax ("VAT")

Individual companies within the Group are subject to output VAT levied at the rate of 17% on the total sales of goods. Input VAT paid on purchases can be used to offset the output VAT levied on sales of goods to determine the net VAT payable.

In accordance with Cai Shui [2000] No. 25 issued on 22 September 2000 by the Ministry of Finance and State Administration for Taxation, the Company is entitled to a reduced VAT rate of 3% for the sales of certain approved software products. The Company is required to pay the VAT at normal rate of 17%, and the VAT paid in excess of the VAT computed at the reduced rate will be refunded to the Company. The refund is recorded as subsidy income and is recognised on cash basis.

(c) **Business tax (“BT”)**

Individual companies within the Group are subject to BT on the provision of maintenance, support and training services at rates ranging from 3% to 5% on gross revenue.

(d) **Surtaxes**

Individual companies within the Group are subject to the following surtaxes:

- City construction and maintenance tax, a tax levied at 7% of net VAT payable and BT payable; and
- Education supplementary tax, a tax levied at 3% of net VAT payable and BT payable.

7. **Earnings/(loss) per share**

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to shareholders for the nine months and three months ended 30 September 2002 of approximately RMB3,399,000 and (RMB1,794,000) respectively (nine months and three months ended 30 September 2001: approximately RMB25,557,000 and RMB2,387,000 respectively) and on the weighted average of outstanding 676,000,000 shares for the nine months and three months ended 30 September 2002 (during the nine months and three months ended 30 September 2001: 621,523,810 shares and 676,000,000 shares respectively).

No diluted earnings/(loss) per share for the nine months and three months ended 30 September 2001 and 2002 have been presented because there were no dilutive potential ordinary shares in existence during the periods.

8. **Dividend**

(a) **Interim dividend attributable to the nine months**

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (nine months ended 30 September 2001: Nil).

(b) **Dividend attributable to the previous financial year, approved and paid during the nine months**

	For the nine months ended 30 September	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the nine months, of RMB0.02 per share (nine months ended 30 September 2001: Nil)	13,520	—
	<u> </u>	<u> </u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 30 September 2002, the Group recorded a turnover of approximately RMB80,481,000 and a profit attributable to shareholders of approximately RMB3,399,000. This represented a drop of 3.3% in terms of turnover as compared with the same period last year. The decrease was due to the reasons that the completion and delivery of certain information technology solutions projects were deferred, and that the Group followed the market trend to reduce the price of its products as well as the demand for “TPHMIS Housing Reform Management Information System” was reduced. The deferral of the projects were at the requests of the customers and they are expected to be completed in the fourth quarter of 2002. As the prices were reduced and the relatively low profit margin products and value added services were proportionately increased in the turnover, both the gross profit and the profit from operations were diluted. As a result of the Group’s active expansion in the marketing activities, the turnover of the third quarter was increased as compared with the same period last year. Despite the improved gross profit, the third quarter was resulted in a loss due to the rise of operational costs and the drop of subsidy income. The subsidy income was dropped as the Group did not receive financial refund in the third quarter and the sales of certain approved software products, which the Group is entitled to have tax refund, were reduced. Hence, the Group has taken initiatives to implement cost control measures and to strengthen its management team and enhance its human resources development programmes in order to push the overall profit up again.

Product and Market

The expedition of the process of the electronic information of the PRC government and the continuing advancement in technology provided a relatively large market for the Group. With the Group’s continuous effort in research and development and in enhancing the ability in market promotion, the Group’s products and services had been further promoted and applied. At the same time, the Group has actively strengthened its position in the PRC market and established research centres overseas.

During the nine months ended 30 September 2002, the Group expanded its sales and service centre in Shanghai and for the purpose of promoting the Company's products and providing value added services, including provision of technology consultancy, after-sales support, installation of proprietary information technology solutions into contract materials and training services, etc, and purchases for and on behalf of the customers contract materials which are to be used in conjunction with the information technology solution projects and sales of accessory information technology products to customers. This can enlarge the level of connection with and bases of customers, and also maintain a close relationship with the customers. Such centre was developed into a subsidiary of the Company. Currently, the office in Chongqing is undergoing similar process. Such arrangement is made in line with the marketing activities as disclosed under the section headed "Key Business Objectives" in the Prospectus, and funded by the proceeds from the issue of H Shares. Not only could this help the Group to widen its sales channel, but also facilitate to promote the Group's image.

As regards the establishment of the overseas research centre, it is still pending for approval due to the State's foreign exchange policy and the requirement of relevant approvals.

Major products of the Group include "TS'98 Tax Management Information System", "TPHMIS Housing Reform Management Information System", "LED Display Control System" and "Government Administration System". We believe that the continuous improvement in and innovation of application software products and services for the purpose of meeting the market demand help the Group to develop new sales channels and market.

The Group is now conducting research on and developing the "Biometric Finger Print Identifying System" and "Embedded Operating System" which are expected to be completed in the fourth quarter of 2002 and to provide revenue for the Group.

Research and Development

The Group continuously focused on the development of component software modules. In order to keep abreast of the trend of market development, the Group has established special teams for the development of different areas such as "Multi-layer System Integral Framework Structure for Government Administration", "Information Security Technology" and "Embedded Operating System". The Group's research and development teams will focus on the component software modules in order to meet customers' need and expectation.

Liquid Capital and Financial Resources

As at 30 September 2002, the Group had net current assets of approximately RMB175,505,000, including deposits of HK\$19,180,000 and of RMB99,965,000. These deposits, together with cash and cash equivalents, were approximately RMB120,345,000. The financial position of the Group remains sound and healthy.

In August 2002, the Group followed the repayment schedule and repaid the unsecured bank loan of RMB30,000,000. The Group's interest expenses has therefore reduced. The Directors believe that the Group has sufficient financial resources to meet the needs of undertakings and operating capital.

Prospects

The Directors believe that with the continual growth of the PRC economy and the PRC's accession into the World Trade Organization, the PRC government-related entities will expedite to improve the quality of work and economic efficiency, and increase the demand for electronic information systems. These would provide a promising prospect for the Group.

The Group will make every effort to seize each opportunity to further enhance its technological level and services. At the same time, the Group will continue to explore investment opportunities in other technological areas so as to achieve the aim of optimising the shareholders' interests.

DISCLOSURE OF THE DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL AND DEBT SECURITIES OF THE COMPANY

As at 30 September 2002, the beneficial interests of the Directors, Supervisors, chief executives and their respective associates in the share capital or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Number of ordinary shares of RMB0.10 each			Total
	Personal interests	Family interests	Corporate interests	
Mr. Li Zheng Bin	1,000,000 ⁽¹⁾	Nil	39,000,000 ^{(1),(2)}	40,000,000
Mr. Yang Shu Cheng	730,000 ⁽¹⁾	Nil	Nil	730,000
Mr. Huang Wei Bin	156,000 ⁽¹⁾	Nil	Nil	156,000
Mr. Chen Zhong Hao	468,000 ⁽¹⁾	Nil	Nil	468,000
Name of Supervisors				
Mr. Chen Bao Yu	28,000 ⁽¹⁾	Nil	Nil	28,000
Mr. Wang Hua	22,000 ⁽¹⁾	Nil	Nil	22,000
Mr. Hu Yun Xu	208,000 ⁽¹⁾	Nil	Nil	208,000

NOTES:

- Such shares are domestic shares of the Company.
- Such shares are held by Sichuan Top Sci-Tech Development Company ("Top Development"). Mr. Li Zheng Bin holds 1.58% interest in Top Development.

Save as disclosed above, as at 30 September 2002, none of the Directors, Supervisors, chief executives or their respective associates had any beneficial interests in the share capital or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO PURCHASE SECURITIES

During the nine months ended 30 September 2002, none of the Directors, Supervisors or chief executives was granted options to subscribe for any types of securities of the Company. As at 30 September 2002, none of the Directors, Supervisors or chief executives held any options to subscribe any types of the Company's securities.

SHARE OPTION SCHEME

Up to 30 September 2002, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, so far as is known to the Company, the following persons were interested in 10% or more of the interests in the issued share capital of the Company, who should make disclosure in accordance with Section 16(1) of the SDI Ordinance.

Name of Shareholder	Number of ordinary shares of RMB0.10 each	Percentage of Issued share capital
Top Development	344,500,000 ^{(1),(2)}	50.95%
Sichuan Topsoft Investment Company Limited ("Topsoft Investment") (Formerly known as Sichuan Top Software Company Limited)	286,000,000 ^{(1),(3)}	42.30%
Labour Association of Top Development	344,500,000 ^{(1),(4)}	50.95%

NOTES:

1. These shares are domestic shares of the Company.
2. Top Development holds 5.77% direct interest in the Company. Top Development owns 34.96% of Topsoft Investment, which owns 40.38% of the Company. Topsoft Investment owns 82% of Sichuan Top Computer Company Limited ("Top Computer"), which owns 1.92% of the Company. Top Development owns 80% of Chengdu Top Information Network Engineering Company Limited, which owns 1.92% of the Company. Top Development owns 60% of Chengdu Tuoan Sci-Tech Information Company Limited, which owns 0.96% of the Company.

3. Topsoft Investment owns 82% of Top Computer, which owns 1.92% of the Company. Topsoft Investment direct interest in the Company is 40.38%.
4. The Labour Association of Top Development owns 34.39% of Top Development. As to Top Development's interest in the Company, please see note 2 above.

Save as disclosed above, the Directors and Supervisors were not aware of any other persons who is interested in 10% or more of the Company's issued share capital.

CHANGES OF THE POSITIONS OF THE DIRECTORS

Two directors of the Company, Mr. Yang Shu Cheng and Mr. Huang Wei Bin, have resigned their respective executive position in the Company on 19 March 2002 but remain as the non-executive director of the Company.

RETAINMENT OF AUDITORS OF THE COMPANY

Since 1 July 2002, auditors of the Company, Arthur Anderson & Co. has merged with PricewaterhouseCoopers Certified Public Accountants. The merged audit firm practises under the name of PricewaterhouseCoopers Certified Public Accountants. According to the resolution passed at the Company's annual general meeting on 14 May 2002, the Company continues to retain the merged audit firm as the auditors of the Company on the condition that all the terms in respect of the provision of services by the merged firm remain unchanged.

RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Professor Lin Wan Xiang resigned as independent non-executive director of the Company on 11 October 2002 due to the substantial increase of his workload being a Ph. D mentor in the South West Finance University. The Board would like to take this opportunity to express its appreciation for his contribution towards the Company during his term of service.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the nine months ended 30 September 2002, the Company or its subsidiaries did not purchase, sell or redeem any of the Company's securities.

COMPETING INTERESTS

None of the Directors, management shareholders or their respective associates (as defined in the GEM Listing Rules) had any interests in any business which competes or may compete with the Group.

SPONSOR'S INTEREST

As at 30 September 2002, neither Core Pacific - Yamaichi Capital Limited (the "Sponsor") nor its directors or employees or respective associates had any interests in the securities of the Company or any member of the Group, or rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

According to the sponsor's agreement entered into between the Company and the Sponsor on 23 March 2001, the Sponsor has received and will receive sponsorship fee as being the retained sponsor of the Company for the period from 30 March 2001 to 31 December 2003.

AUDIT COMMITTEE

The Company established an audit committee on 8 March 2001 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

After Professor Lin Wan Xiang resigned on 11 October 2002, the audit committee comprises three members, namely two independent non-executive Directors, Professor Yang Ji Ke and Mr. Li Ming Shu, and one executive Director, Mr. Fan Jing Ru.

The audit committee has reviewed the Group's unaudited consolidated results for the nine months ended 30 September 2002 and was of the view that the compilation of the accounts has complied with all applicable accounting standard and relevant regulations and laws, and made sufficient disclosure.

By order of the Board
Li Zheng Bin
Chairman

Chengdu, the PRC, 14 November 2002