



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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR 2002**

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock 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 (<http://www.hkgem.com>) in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this announcement, 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 announcement.

This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

RESULTS HIGHLIGHTS

- For the year ended 31 December 2002, the Company and its subsidiaries (the “Group”) recorded a turnover of approximately RMB133,263,000 (2001: approximately RMB105,755,000), representing an increase of 26.0% as compared to the same period of 2001.
- The audited profit attributable to shareholders was approximately RMB3,166,000 (2001: approximately RMB28,587,000), representing a decline of 88.9%.
- Earnings per share decreased from RMB0.045 of 2001 to RMB0.0047 of this year.

Principal Activities

The Group is an IT solutions provider to PRC government-related entities. Its principal business include provision of system solution services and other value added services such as, technology consultancy, after-sales support, installation of proprietary IT solutions into contract materials and training services, etc; participating in the research, development, production and distribution of IT solutions of government administration systems; 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 necessary information technology products to customers.

The software systems developed by the Group are module-based, which allow them to be more easily customised to match the needs of different users and to be more easily adapted as their needs change.

Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the business objectives as stated in the prospectus of the Company dated 26 March 2001 (the “Prospectus”) with the actual business progress for the year ended 31 December 2002:

Major Area	Major Business Objective	Actual Business Progress
<i>IT Solution Development</i>		
Government administration framework software basing on multi-layer system	Complete testing of government administration framework services platform as well as encoding and testing of communication platform and system service platform, complete the development of information security components in taxation, housing reforms and telecommunication applications	The testing of government administration framework services platform as well as encoding and testing of communication platform and system service platform, and the development of information security components in taxation, housing reforms and telecommunication applications were completed. The Company is now at the integration stage of the government administration framework software.

Major Area	Major Business Objective	Actual Business Progress
Biometric Finger Print Identifying System	<p>Designing and testing of software module prototypes, overall testing on proto-type. Explore customer-end security software basing on finger print identification technics, including finger print data-base management system, finger print browser program, security reader program etc. Documentation and testing on finger print identifying technology on customer-end security software products, to form production capacity for mass production.</p> <p>Information release on security software product, including secured e-mail and fax software system basing on finger print identification, remote display secured release</p>	<p>Designing and testing of software module prototypes, overall testing on proto-type were completed. Customer-end security software basing on finger print identification technics, including finger print data-base management system, finger print browser program, security reader program etc were explored. Based on the customer demand on the biometric finger print identifying system beyond the expectation, the Company has been suspended, the production development of biometric fringer print identifying system's products. Such development will be re-considered when the customer demand is able to indicate that the production reaches break-even point.</p>

Major Area	Major Business Objective	Actual Business Progress
Embedded electronic display system	Development of embedded display system software, system testing and design standards for documentary files. Testing of embedded electronic display system	Development of embedded display system software, system testing and design standards for documentary files as well as testing of embedded electronic display system were completed. The Company is now conducting system small scale trial production.
<i>IT Solution Reproduction</i>		
Government administration framework software basing on multi-layer system	Start trial production on the fields of taxation, housing reforms and telecommunication	Trial production on the fields of taxation, housing reforms and telecommunication were performed. The Company is now conducting overall production.
Biometric finger print identifying system	Trial production of finger print documentary security management system, finger print browser program, security reader program	Based on the customer demand on the biometric finger print identifying system beyond the expectation, the Company has been suspended the reproduction development of biometric finger print identifying system's products. Such development will be re-considered when the customer demand is able to indicate that the reproduction reaches break-even point.

Major Area	Major Business Objective	Actual Business Progress
<i>Marketing</i>	Development of market sales, technological services support network in the Huadong, Huabei, Xinan and Xibei districts as priority, set up sales offices or representative offices in Beijing, Hangzhou, Xian and Kunming, and expand offices in Shanghai, Lhasa, Urumqi and Chongqing	The Company set up Beijing sales office and expanded office in Shanghai as its subsidiary. The market sales, technological services support network in the Huadong and Huabei districts were developed with its centre in Shanghai. As Hangzhou is closed to Shanghai, the Company postpones to set up sales office or representative office in Hangzhou so as to centralise the utilization of resources. Regarding Xinan and Xibei districts, the business development is slower than expected. Accordingly, the set up of sales offices in Xian and Kunming, and the expansion offices in Lhasa, Urumqi and Chongqing are deferred in order to reduce cost. Currently, the Company is exploring the markets in Xinan, Xibei and Dongbei districts.

Major Area**Major Business Objective****Actual Business Progress**

Set up information technological centre in USA; construction of basic facilities for the technology and information centre (including office space, site construction development, software and hardware development environment construction, office equipment and operation expenses in the initial stage)

Due to the PRC's foreign exchange policy and the requirement for obtaining the relevant approvals, the establishment of information technological centre in USA is still pending.

Recruit of senior technical and management staffs and development staffs, domestic and international training of the staffs. Training for technical, production and promotion staff

The Group provided domestic and international training for its staffs as well as training for technical, production and promotion staff. However, as the atmosphere of the IT market was not as good as expected, the Group has not increased its staffs in accordance with the business objective for the purpose of controlling expenditures.

Major Area**Major Business Objective****Actual Business Progress**

Promote brand image of Top and the products through Hong Kong media. Market promotions of the products, country-wide exhibitions (Guangzhou Spring and Autumn Commodity Fairs, professional exhibitions of the various ministries and departments). Exhibition of new products in the Shenzhen “Hi-tech Commodity Fair”

Market promotions of the products, country-wide exhibitions (Guangzhou Spring and Autumn Commodity Fairs, professional exhibitions of the various ministries and departments) and exhibition of new products in the Shenzhen “Hi-tech Commodity Fair” were undertaken. Nevertheless, the proposed promotion of the brand image of TOP and its products through Hong Kong media aims at internationalising the TOP brand name in line with the establishment of the information technological centre in USA. As the project is still pending for approvals in respect of the establishment of such centre, the promotion activities on Top brand image and products through Hong Kong media are therefore deferred.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a provider of application software to the government-related entities in the PRC. In the PRC, the various government-related entities are mainly responsible for the economic development of, among others, telecommunication, transportation, taxation, banking, social insurance and labour markets of the country's 31 provinces and cities. In 2002, the Group launched two new products, "Biometric Finger Print Identifying System" and "Embedded Operating System". These new systems together with the Group's existing products (including "TS'98 Tax Management Information System", "TPHMIS Housing Reform Management Information System", "LED Display Control System" and "Government Administration System") and active expansion in the marketing activities, brought about a stable development of the Group's turnover. The turnover of the Group in 2002 was approximately RMB133,263,000, an increase of 26.0%, compared with 2001. However the IT market in the mainland was under keen competition. The Group properly adjusted the price of its products downward in order to maintain its market shares and the product salesability. Such price promotion enabled the turnover to be grown by 26.0% as compared with 2001. Accordingly, the relatively low profit margin products and value added services were proportionately increased the turnover. The gross profit margin was dropped by 31.1%. Both the gross profit and the profit from operations were therefore diluted. Moreover, the Group adopted prudent measures. The provision for doubtful debts was charged by approximately RMB15,058,000, which was credited by approximately RMB1,372,000 last year, and increased the administrative expenses by 425.0% as compared with last year. In addition to the drop of subsidy income, the audited profit attributable to shareholders was reduced to approximately RMB3,166,000. The subsidy income was dropped as the Group received less financial refund and the sales of certain approved software products, which the Group is entitled to have tax refund, were reduced. Earnings per share decreased from RMB0.045 in 2001 to RMB0.0047 of this year. 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 up the overall profit. As such, the Group's staff costs were controlled and contracted.

The Company's Interim Report 2002 recorded an income from investment securities of RMB705,000. The income represented the dividend by way of bonus shares of 705,000 shares of RMB1 each, totalled RMB705,000, distributed in the second quarter 2002 to the Company by Chengdu Western

Software Park Company Limited, a company where the Company holds its 7.05% equity interest. The Company stated this investment in its balance sheet at cost. Therefore, an entry was recorded into the financial statements in the second quarter 2002 in accordance with our interpretation of Statement of Standard Accounting Practice No. 18 — “Revenue” accordingly. The Company was advised by its auditors that in accordance with the Hong Kong generally accepted principles, the dividend did not result in the inflow of an economic benefit to the Company, and therefore it is not appropriate to recognise the dividend as revenue and to adjust the carrying value of the investment. Adjustment was made accordingly in the Company’s year end financial statements. The reversal of such income does not affect the Company’s position of receipt of the aforesaid share dividend. Nevertheless, as a result, the reversal of such income caused a reduction of RMB705,000 of the Company’s profit.

Business Environment

The PRC’s economy continued to develop in 2002, with its GDP growth at 8%, which brought about continuous increase of market demand. According to the statistics research conducted by The Center of Computer and Microelectronic Industry Development Research (“CCID”) and published in “Annual report of 2002-2003 for the PRC Software Market Research” issued by 賽迪資訊顧問有限公司, the total sale in the PRC’s software market in 2002 was RMB34.5 billion with the sales revenue of RMB23 billion in 2000 and RMB28.5 billion in 2001. According to the forecast of 賽迪資訊顧問有限公司, the sales in the software market of the PRC between 2003 and 2007 would continue to sustain a growth of 21.1%. The sales in the software market of the PRC is forecasted to be increased from RMB34.5 billion in 2002 to RMB89.8 billion in 2007.

Sales in the software market of the PRC in 2002

Type of Softwares	Turnover (RMB billion)	Growth rate
Platform software	9.97	16.1%
Intermediary software	2.28	44.3%
Application software	22.25	21.4%
Total	34.5	21.1%

(Source of Information: CCID)

The emergence and continuous development of software and information technology have enabled the government-related entities to solve their efficiency and security issues, thereby reducing direct and indirect economic losses and bringing growing opportunity.

Products 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 R&D 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 Year, the Group expanded its sales and services centre in Shanghai and for the purpose of promoting and providing value added services. 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. 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, the Group 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", "Biometric Finger Print Identifying System" and "Embedded Operating System". The main application of "Embedded Operating System" is used in "LED Display Control System" and other products. We believe that the continuous improvement in and innovation of application software products and services help the Group to meet the market demand and develop new sales channels and market.

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 of Government Administration", "Information Security Technology" and "Embedded Operating System". The Group's R&D team will focus on the component software modules in order to meet customers' needs and expectation.

Human Resources

As at 31 December 2002, the Group employed 234 staff, 25 of whom have master degree and 5 of whom have doctorate degree. For the year ended 31 December 2002, the total amount of salary paid by the Group to its staff was approximately RMB5,609,000 (2001: approximately RMB7,942,000).

A breakdown of employees of the Group by their functions as at 31 December 2001 and 2002 were as follows:

Departments	2002	2001
Management and administration	25	25
Research and development	103	145
Sales and Marketing (including IT Solution Reproduction)	94	100
Product acessment and testing	<u>12</u>	<u>20</u>
Total	<u>234</u>	<u>290</u>

In respect of the human resources, the Group adopted a flexible but conservative policy. During the course of implementing the business objectives, the Group would first re-allocate its staff in other departments to cover the shortage of staff in a specific department. The Company would only employ new staff when re-allocation became impossible, thus enhancing the efficiency and minimising the cost.

Financial Analysis

The Group has adopted a proactive and stable financial policy with a stringent control of investment risk in order to optimise the investment return to the Company's shareholders.

Capital Structure

The following table sets out the capital structure of the Group as at 31 December 2002, compared with that of 2001:

	2002		2001	
	Total	Percentage	Total	Percentage
	RMB'000		RMB'000	
Shareholders Equity	316,435	96.8%	326,789	91.3%
Minority Interests	10,385	3.2%	1,067	0.3%
Long-term bank loans, due within one year	<u>—</u>	<u>—</u>	<u>30,000</u>	<u>8.4%</u>
Total	<u>326,820</u>	<u>100.0%</u>	<u>357,856</u>	<u>100.0%</u>

Ability to Debt Repayment and Debt Ratio

As at 31 December 2002, the Group had no long term borrowings. During the year, no interest has been capitalised by the Group.

The debt ratio (defined as total liabilities excluding minority interests over total assets) of the Group as at the end of the year was 8.9%. The debt ratios of the Group in last two years, indicating a decline, were as follows:

	2002	2001
Debt ratio	8.9%	14.3%

Liquid Capital and Financial Resources

As at 31 December 2002, the Group's net current assets of approximately RMB179,394,000, including deposits of HK\$18,745,000 and of RMB113,652,000. These deposits, together with cash and cash equivalents, were approximately RMB133,636,000. 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.

Capital Expenditure Commitment

As at 31 December 2002, the Group did not have any significant commitment on capital expenditure.

Charged Assets

As at 31 December 2002, the Group did not have any of its assets charged.

Significant Investments

During the year, the Company invested RMB21,000,000 to establish a subsidiary, namely, “Shanghai Top Sci-Tech Company Limited”, and holds 70% interest in the subsidiary, details of which were set out in note 15 of the financial statements.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year, the Group did not have any material acquisition or disposal of subsidiaries and affiliated companies.

Future Plans for Material Investment/Capital Assets

As at 31 December 2002, the Group had no future plans for material investments or capital assets other than those stated in the section headed “Statement of Business Objectives” in the Company’s prospectus dated 26 March 2001.

Foreign Exchange Risk

A substantial part of the Group’s bank deposits, which was in Hong Kong dollars, came from the funds raised through the listing on the Stock Exchange. Such funds were entered into the Company’s accounts at the exchange rate of HK\$1.00 to RMB1.0611 on 31 December 2002. Such funds may be required to exchange to RMB or other currencies for implementation of the Group’s business objectives, and as a result, the risks of foreign exchange may arise and the Group may gain profit or suffer loss thereby.

Contingent Liabilities

As at 31 December 2002, the Group did not have any material contingent liabilities.

Prospects For 2003

The PRC's economy is expected to grow continuously in 2003. It would bring about a continuous and stable demand for development of electronic communication by the government-related entities.

As at 31 December 2002, the Group had incomplete contracts with aggregate amount of approximately RMB10 million.

According to 《中國新聞網》, officials of the State Council Information Office said, at the "2002 World Bank Information Financial Forum" held on December 2002, that the PRC government can use electronic administration to strength the roles of government function, to support the government services and to raise its transparency.

We 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 optimizing the shareholders' interests.

Results and Dividends

The Group's profit for the year ended 31 December 2002 and the state of financial affairs of the Group and the Company as at that date are set out in the financial statements below.

The Board does not recommend the payment of final dividend for the year ended 31 December 2002.

Segmental Information

The Group conducts its business within one business segment of providing IT solutions system. Besides, the Group's turnover, assets and liabilities were derived from the PRC, hence, no business nor geographical analysis on segmental information were presented.

Closure of Register of Members

The register of members of the Company will be closed from 13 April 2003 to 12 May 2003 (both days inclusive).

Major Customers and Suppliers

In the year under review, sales to the Company's five largest customers accounted for 40.1% of the total sales for the year and sales to the largest customer included therein amounted to 8.7%. Purchases from the Group's five largest suppliers accounted for 69.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 49.9%.

The normal credit period granted by the Group to its customers is on average 120 days from the dates of invoice.

To the best knowledge of the Directors, save as disclosed above, neither the Directors, the Supervisors and their associates nor any shareholders who own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or five largest suppliers.

Pre-emptive Rights

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

Use of Proceeds from the Issue of H Shares

The amount of net proceeds from the issue of H Shares of the Company in 2001 was approximately HK\$106 million. Up to 31 December 2002, such fund was applied as follows:

- Approximately HK\$36,000,000 (estimated amount as stated in the Prospectus: approximately HK\$47,000,000) were used in IT solution development, R&D of new technologies and products, small scale of product testing and test production. The under utilisation is attributed to the Group's deferral of setting up technology and information centre in the USA and due to the PRC e-government administration under standardisation, the funds were paid slowly in order to suit the standard and to avoid mis-applying of resources;

- Approximately HK\$10,000 (estimated amount as stated in the Prospectus: approximately HK\$2,000,000) were used in the establishment of IT solution reproduction. The under utilisation is attributed to the Group's suspension of the reproduction development of biometric finger print identifying system's products;
- Approximately HK\$12,000,000 (estimated amount as stated in the Prospectus: approximately HK\$32,000,000) were used to promote the Company's new products through marketing activities (advertisement, exhibitions and other marketing and promotional activities). The under utilisation is attributed to the Group's decision to defer the promotion of brand image of TOP and the products through Hong Kong media and due to the adoption of a more conservative position and the slow down the payment; and
- Approximately HK\$2,800,000 (estimated amount as stated in the Prospectus: approximately HK\$3,700,000) were used to establish branch and representative office to promote the Company's products. The under utilisation is due the Group 's deferral of establishing branch and representative offices.

As set out in the Prospectus, the Company originally intended to apply approximately HK\$7,000,000 raised from the proceeds from the issue of H Shares to establish technology and services centres. However, due to the PRC's foreign exchange policy and the requirement for obtaining the relevant approvals, the project is still pending and no fund has been applied by the Company in relation thereto in the year.

Up to 31 December 2002, the Company has used approximately RMB50,810,000, being 47.9% of the net proceeds from the issue of H Shares. The remaining approximately RMB55,190,000 are deposited at the banks in the PRC and will be used to implement the Company's remaining business objectives.

Directors' and Supervisors' Service Contracts

Each of the Directors and Supervisors has entered into a service contract with the Company on 8 March 2001 (except Mr. Li Yan whose service contract was entered into on 15 September 2001) for a term of three years, expiring on the date of the annual general meeting of that year.

Directors' and Supervisors' Interests in Contracts

During the year, Mr. Li Zheng Bin, the Company's Director, is also a shareholder of Sichuan Top Sci-Tech Development Company ("Top Development") and of Sichuan Topsoft Investment Company Limited, (formerly known as Sichuan Top Software Company Limited, collectively "Topsoft Investment"). Top Development is the shareholder of Topsoft Investment and has direct or indirect interests in the following contracting parties. As such, Mr. Li Zheng Bin has certain direct or indirect interests in the following contracts of the Group. Another Director of the Company, Mr. Huang Wei Bin, is a shareholder of Topsoft Investment. Topsoft Investment has direct or indirect interests in the following contracting parties (as those remarked note (1)). So Mr. Huang Wei Bin has certain direct or indirect interests in such contracts:

Contracting party	Nature of the contract	Amount RMB'000
Top Northeast Software Park (Anshan) Company Limited ("Top Northeast Software Park") ⁽¹⁾	Sale of goods	855
Yunnan Top Software Company Limited ("Yunnan Top") ⁽¹⁾	Sale of goods	740
Top Northwest Software Park (Xian' yang) Company Limited ("Top Northwest Software Park") ⁽¹⁾	Sale of goods	215
Xian Top Software Company Limited ("Xian Top") ⁽¹⁾	Sale of goods	150
Chengdu Top Chang Zheng Network Company Limited ("Top Chang Zheng") ⁽¹⁾	Sale of goods	10
Top Computer ⁽¹⁾	Purchase of contract materials	3
Topsoft Investment ⁽¹⁾	Purchase of contract materials	95

Contracting party	Nature of the contract	Amount RMB'000
Sichuan Top Communication Company Limited (“Top Communication”) ⁽¹⁾	Purchase of contract materials	30
Top Development	Sale of goods	193
	Property construction cost	1,463
Top Group Sci-Tech Development Company Limited	Sale of goods	598
	Property leasing income	1,243
	Equipment leasing expenses	110
	Property leasing expenses	400
	Composite services expenses	830
Sichuan Finance Lease Company Limited	Interest income earned from cash deposits amounted to RMB67,091,000	748

Note:

1. Topsoft Investment holds only the interest of such companies.

Save as disclosed above, none of the Director or Supervisor is materially interested (whether direct or indirect) in any contract which is significant to the Company or its subsidiaries during the year.

Transactions with the Controlling Shareholder and its Subsidiaries

During the year, the Group entered into the following significant contracts with Controlling Shareholder and its subsidiaries:

Contracting party	Nature of the contract	Amount RMB'000
Top Northeast Software Park	Sale of goods	855
Yunnan Top	Sale of goods	740
Top Northwest Software Park	Sale of goods	215
Xian Top	Sale of goods	150
Top Chang Zheng	Sale of goods	10

Contracting party	Nature of the contract	Amount RMB'000
Top Computer	Purchase of contract materials	3
Topsoft Investment	Purchase of contract materials	95
Top Communication	Purchase of contract materials	30

Disclosure of the Directors', Supervisors' and Chief Executives' Interests in the Share Capital and Debt Securities of the Company

As at 31 December 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 (“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 Director	Number of ordinary share 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 Supervisor

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 were domestic shares of the Company.
- Such shares are held by Top Development and Mr. Li Zheng Bin holds 1.58% interest in Top Development.

Save as disclosed above, as at 31 December 2002, none of the Directors, Supervisors, chief executives and 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 year, none of the Directors, Supervisors or chief executives was granted options to subscribe any types of securities of the Company. As at 31 December 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 31 December 2002, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000 ("Share Option Scheme"). Details of the Share Option Scheme are as follows:

(a) Purpose

The purpose of the Share Option Scheme is to grant share options to selected participants as incentives or rewards for their contribution to the Group.

(b) Who may join

The Board may, at its discretion, invite any full-time employees including any executive director of the Company or its subsidiaries, if any, to take up options to subscribe for H Shares at a price calculated in accordance with sub-paragraph (d) below, except that employees who are PRC nationals and have taken up any options to subscribe for H Shares shall not be entitled to exercise the options until (i) the current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares or any laws or regulations with similar effects ("H Shares Restrictions") have been abolished or removed; and (ii) the CSRC or other relevant government authorities in the PRC have approved the new issue of share upon the exercise of any options which may be granted under the Share Option Scheme.

(c) Payment on acceptance of option offer

RMB1.00 is payable by the employee to the Company on acceptance of the option offer.

(d) Price of Shares

The subscription price for H Shares under the Share Option Scheme will be determined by the Board and notified to each grantee and will be no less than the higher of (i) the closing price of the H Shares as stated in the Stock Exchange daily quotations sheet on the date of offer, which must be a business day, (ii) the average closing prices of the H Shares as stated in the Stock Exchange daily quotations sheets for the five business days immediately preceding the date of offer and (iii) the nominal value of a H Shares.

(e) Maximum number of H Shares

The total number of H Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% (or such higher percentage as may be allowed under the GEM Listing Rules) of H Shares of the Company in issue from time to time (excluding (i) H Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes; and (ii) any pro rata entitlements to further Shares issued in respect of those H Shares mentioned in (i)) during the period of 10 consecutive years commencing on 25 October 2000.

No employee shall be granted an option which, if exercised in full, would result in such person maximum entitlement exceeding 25% of the aggregate number of H Shares for the time being issued or issuable under the Share Option Scheme.

(f) Time of exercise of option

No employees who are PRC nationals and have taken up any options to subscribe for H Shares shall be entitled to exercise any such options until (i) the H Shares Restrictions have been abolished or removed and; (ii) approvals have been obtained from the CSRC or other relevant government authorities in the PRC for the exercise of any option which may be granted under the Share Option Scheme. Subject to the above, an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee provided that the period within which the option must be exercised shall be not less than three years and not more than 10 years from the date of grant of the option.

(g) **Period of Share Option Scheme**

As the Share Option Scheme will remain valid for a period of 10 years commencing on 25 October 2000, its remaining life is 7.5 years (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Share Option Scheme). After termination, no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

Substantial Shareholders

As at 31 December 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%
Topsoft Investment	286,000,000 ^{(1),(3)}	42.30%
Labour Association of Top Development	344,500,000 ^{(1),(4)}	50.95%

Notes:

1. Such 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 Top Computer which owns 1.92% of the Company. Top Development owns 80 % of Top Network which owns 1.92% of the Company. Top Development owns 60% of Tuoan Information 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 (2) above.

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

Purchase, Sale or Redemption of the Company's Securities

During the year, the Company or its subsidiaries did not purchase, sell or redeem any of the Company's securities.

Housing and Retirement Schemes

The Group has not set up its own housing and retirement schemes for its employees. For compliance with the relevant PRC laws, it is the Group's policy to register the employees for the relevant schemes with local social security bureau upon their joining the Group. Thereafter, the Group would deduct from the employees' payroll to pay the relevant schemes' contribution and the same are included in the employee's payroll and the total amount will be charged as part of employee's salaries. The costs and benefits of the schemes vest fully on the employees. During the year, the Group itself did not incur any expenses in providing housing and retirement schemes to its employees. Except as disclosed above, the Group does not have any other obligation in relation to housing and retirement benefits of its employees.

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 compete or may compete with the Group.

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 held four meetings in 2002. At the first meeting, the financial report for the year ended 31 December 2001 was reviewed. At the second meeting, the first quarterly report was reviewed. At the third meeting, the interim report was reviewed. The third quarterly report was reviewed at the fourth meeting.

The audit committee has reviewed the Group's financial report for the year ended 31 December 2002 and was of the view that the compilation of the report has complied with all applicable accounting standard and relevant regulations and laws, and made sufficient disclosure.

Board Practices and Procedures

Since its listing on the GEM, the Company has complied with the board practices and procedures as stipulated by Rule 5.28 to Rule 5.39 of GEM Listing Rules.

By Order of the Board
Li Zheng Bin
Chairman

20 March 2003
Chengdu, the PRC

The auditors' report and the audited financial statements of the Group for the year ended 31 December 2002 are set out below.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHENGDU TOP SCI-TECH COMPANY LIMITED**

(incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 28 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, the People's Republic of China

20 March 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts are stated in Renminbi Yuan (“RMB”))

	<i>Note</i>	2002 RMB'000	2001 RMB'000
Turnover	3,26	133,263	105,755
Cost of sales	26	(94,108)	(62,861)
Amortisation of intangible assets	13	(14,444)	(14,444)
Gross profit		24,711	28,450
Other revenue	3,26	4,521	2,813
Distribution costs		(6,523)	(5,444)
Administrative expenses	26	(22,197)	(4,228)
Other operating expenses		(1,231)	(969)
Operating (loss) profit	4	(719)	20,622
Finance costs	6	(1,428)	(2,128)
Subsidy income	5	8,326	16,309
Profit before taxation		6,179	34,803
Taxation	7(a)	(2,695)	(6,149)
Profit after taxation		3,484	28,654
Minority interests		(318)	(67)
Profit attributable to shareholders	8	3,166	28,587
Dividends	9	—	13,520
Basic earnings per share	10	RMB 0.0047	RMB 0.045

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2002**

(All amounts are stated in Renminbi Yuan (“RMB”))

	<i>Note</i>	2002 RMB'000	2001 RMB'000
Non current assets			
Intangible assets, net	13	54,395	68,839
Fixed assets, net	14	83,981	85,297
Investment securities	16	<u>9,050</u>	<u>9,050</u>
		147,426	163,186
Current assets			
Inventories, net	17	9,493	17,060
Trade and other receivables, net	18	64,795	37,342
Due from related parties	26	3,435	13,011
Bank balances and cash		<u>133,636</u>	<u>151,821</u>
		211,359	219,234
Current liabilities			
Trade payables	19	11,184	8,878
Other payables and accruals		12,382	8,165
Taxation payable		7,127	3,381
Current portion of long-term liabilities	20	—	30,000
Warranty provisions	21	143	733
Due to related parties	26	<u>1,129</u>	<u>3,407</u>
		<u>31,965</u>	<u>54,564</u>
Net current assets		<u>179,394</u>	<u>164,670</u>
Total assets less current liabilities		<u>326,820</u>	<u>327,856</u>
Financed by:			
Share capital	23	67,600	67,600
Reserves	24	176,003	172,991
Retained earnings	24	<u>72,832</u>	<u>86,198</u>
Shareholders' funds		316,435	326,789
Minority interests		<u>10,385</u>	<u>1,067</u>
		<u>326,820</u>	<u>327,856</u>

**BALANCE SHEET OF THE COMPANY
AS AT 31 DECEMBER 2002**

(All amounts are stated in Renminbi Yuan (“RMB”))

	<i>Note</i>	2002 RMB'000	2001 RMB'000
Non current assets			
Intangible assets, net	13	54,395	68,839
Fixed assets, net	14	83,883	85,297
Investments in subsidiaries	15	40,000	19,000
Investment securities	16	<u>9,050</u>	<u>9,050</u>
		187,328	182,186
Current assets			
Inventories, net	17	2,537	14,353
Trade and other receivables, net	18	46,507	28,675
Due from related parties	26	2,931	6,748
Bank balances and cash		<u>100,282</u>	<u>146,997</u>
		152,257	196,773
Current liabilities			
Trade payables	19	3,764	8,610
Other payables and accruals		8,400	8,145
Taxation payable		6,262	2,559
Current portion of long-term loans	20	—	30,000
Warranty provisions	21	115	733
Due to related parties	26	<u>6,623</u>	<u>3,396</u>
		<u>25,164</u>	<u>53,443</u>
Net current assets		<u>127,093</u>	<u>143,330</u>
Total assets less current liabilities		<u>314,421</u>	<u>325,516</u>
Financed by:			
Share capital	23	67,600	67,600
Reserves	24	175,629	172,800
Retained earnings	24	<u>71,192</u>	<u>85,116</u>
Shareholders' funds		<u>314,421</u>	<u>325,516</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts are stated in Renminbi Yuan (“RMB”))

	<i>Note</i>	2002 RMB’000	2001 RMB’000
Total equity as at 1 January		326,789	184,548
Net profit for the year	24	3,166	28,587
Dividends	24	(13,520)	—
Issue of shares	23,24	—	130,130
Share issue expenses	23,24	<u>—</u>	<u>(16,476)</u>
Total equity as at 31 December		<u>316,435</u>	<u>326,789</u>

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002**

(All amounts are stated in Renminbi Yuan (“RMB”))

	<i>Note</i>	2002 RMB'000	2001 RMB'000
Net cash inflow from operations	25(a)	20,601	11,904
Interest paid		(1,428)	(2,128)
Income tax paid		<u>(2,987)</u>	<u>(13,685)</u>
Net cash inflow (outflow) from operating activities		<u>16,186</u>	<u>(3,909)</u>
Investing activities			
Purchase of fixed assets		(1,846)	(129)
Interest received		1,995	908
Dividends received from investments		<u>—</u>	<u>705</u>
Net cash inflow from investing activities		<u>149</u>	<u>1,484</u>
Net cash inflow (outflow) before financing		<u>16,335</u>	<u>(2,425)</u>
Financing activities	25(b)		
Issue of ordinary shares		—	130,130
Share issue expenses		—	(16,476)
New unsecured loans repayable within five years		—	30,000
Repayment of amounts borrowed		(30,000)	(30,000)
Dividends paid		(13,520)	—
Capital injection by minority shareholders		<u>9,000</u>	<u>1,000</u>
Net cash (outflow) inflow from financing		<u>(34,520)</u>	<u>114,654</u>
(Decrease) increase in cash and cash equivalents		(18,185)	112,229
Cash and cash equivalents at 1 January		<u>151,821</u>	<u>39,592</u>
Cash and cash equivalents at 31 December	25(c)	<u>133,636</u>	<u>151,821</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts are stated in Renminbi Yuan (“RMB”) unless otherwise stated)

1 Organisation and operations

Chengdu Top Sci-Tech Company Limited (the “Company”) was incorporated as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 24 January 1993. On 30 March 2001, the Company issued 169,000,000 overseas public shares (“H share”), which have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 March 2001.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the provision of system solution services and other value added services such as technology consultancy, after-sales support and training services, and sales of information technology related products. The Company is also engaged in research, development, production and distribution of information technology solutions for government administration systems.

The number of employees of the Group as at 31 December 2002 was 234 (2001: 290).

The registered office of the Group is located at Tu Qiao Industrial Development Zone, Jin Niu District, Chengdu, Sichuan Province, the People’s Republic of China.

2 Basis of preparation and principal accounting policies

The basis and principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties are stated at fair value.

In the current year, the Group adopted the following new or revised Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised)	:	Presentation of financial statements
SSAP11 (revised)	:	Foreign currency translation
SSAP15 (revised)	:	Cash flow statements
SSAP33	:	Discontinuing operations
SSAP34	:	Employee benefits

The adoption of these new or revised SSAPs has not had a material financial impact on the financial statements, as the Group was already following the recognition and measurement principles contained therein. However some comparative disclosures have been revised or expanded.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill represents the excess of the cost of the acquisition over the Group's interests in the fair value of net assets of the acquired subsidiary at the date of exchange transaction. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Translation of foreign currencies

Transactions in foreign currencies are recorded at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(d) **Intangibles**

(i) **Patents and trademarks**

Expenditure on acquired software copyrights, patent and proprietary technology is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Software copyrights, patent and proprietary technology are not revalued as there is no active market for these assets. The estimated useful lives adopted are as follows:

Software copyrights	5 years
Patent	6.5 years
Proprietary technology	5 years

(ii) **Research and development costs**

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are deferred and recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an intangible asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) **Impairment of intangible assets**

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed and its carrying amount is written down immediately to its recoverable amount.

(e) **Fixed assets**

(i) **Land use rights and buildings**

Land use rights and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses. Professional valuations are performed periodically. In intervening years, the directors review the carrying value of land use rights and buildings and adjustment is made where in the directors' opinion there has been a material change in value.

Any increase in land use rights and buildings valuation is credited to the revaluation surplus; any decrease is first offset against an increase in earlier valuation in respect of the same property and is thereafter charged to the profit and loss account.

(ii) Other fixed assets

Other fixed assets, comprising other equipment, are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Land use rights are depreciated over their useful lives while buildings and other equipment are depreciated at rates sufficient to write off their valuation and costs less accumulated impairment losses over their estimated useful lives on a straight-line basis.

The principal annual rates adopted are as follows:

Land use rights	2%
Buildings	2.5%
Other equipment	8-25%

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, land use rights and buildings, and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Investments securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(h) Inventories

Inventories comprise raw materials, work in progress and finished goods, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(k) Warranty provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

(l) Employment benefits

The Group's contribution to defined contribution housing and retirement scheme for the benefit and its employees are expensed as incurred.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Subsidy income is recognized when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the subsidy will be received.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis.

(p) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) **Significant changes in accounting estimation**

Due to the uncertainties inherent in the operating environment, certain accounting statement items cannot be measured with absolute accuracy but have to be estimated. If the basis relied upon to make those estimates changes, and in the event that new information is obtained, as a result of accumulating more experience and with hindsight, actual results could differ from those estimates.

During the year, revised useful lives have been adopted for other equipment. The impact has been to increase the charge for the year, and to reduce the profit by approximately RMB 690,000.

3 **Turnover, revenue and segment information**

The Group is principally engaged in the provision of system solution services and other value added services such as technology consultancy, after-sales support and training services, and sales of information technology related products. Revenues recognised during the year are as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Turnover		
Sales of software and information systems	67,134	105,755
Sales of information technology related products	<u>66,129</u>	<u>—</u>
	133,263	105,755
Other revenue		
Rental income	1,520	1,427
Interest income	1,995	908
Other	<u>1,006</u>	<u>478</u>
	<u>4,521</u>	<u>2,813</u>
Total revenues	<u>137,784</u>	<u>108,568</u>

The Group conducts its business within one business segment - the provision of system solution services and other value added services such as technology consultancy, after-sales support and training services, and sales of information technology related products in the PRC. No segment profit and loss account has been prepared by the Group during the year ended 31 December 2002. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

4 Operating (loss) profit

Operating (loss) profit is stated after crediting and charging the following:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Charging		
Depreciation of fixed assets (Note 14)	3,162	2,169
Staff costs (including directors' and supervisors' emoluments) (Note 11)		
- Salaries, bonus and wages	5,183	7,025
- Staff welfare fund	426	917
Cost of inventories	74,448	38,903
Provision for inventory obsolescence (Note 17)	1,547	1,233
Provision for doubtful debts (Note 18)	15,058	—
Operating leases	643	1,526
Auditors' remuneration	850	850
Provision for warranty (Note 21)	—	845
Amortisation of intangible assets (Note 13)	<u>14,444</u>	<u>14,444</u>
Crediting		
Rental income	1,520	1,427
Interest income from bank deposits	1,995	908
Write-back of provision for doubtful debts	—	1,372
Write-back of provision for warranty (Note 21)	<u>245</u>	<u>—</u>

5 Subsidy income

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Financial refund (a)	2,172	6,216
Tax refund (b)	<u>6,154</u>	<u>10,093</u>
	<u>8,326</u>	<u>16,309</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 support of the development of the Company, the Company is entitled to a financial refund based on conditions as stipulated in the notices. The financial refund is recorded as subsidy income and recognized on a cash basis. According to Circular Guo Fa [2000] No. 2 issued by the State Council in January 2000, the above-mentioned financial refund requires approval from the State Council or it will cease to be available. Therefore, there is no assurance that the Company can enjoy such refunds 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 value added tax (“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.

6 Finance costs

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Interest payable on bank loans	<u>1,428</u>	<u>2,128</u>

7 Taxation

(a) *Enterprise income taxes (“EIT”)*

In accordance with the 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 recognised as a New and High Technology Enterprise and is registered in the Chengdu NHTDZ. Accordingly, the Company is subject to EIT at 15%.

Pursuant to Nan Shui Mian [2002] No. 8 issued by the local tax bureau of Nan Hui District of Shanghai City on 12 September 2002, Shanghai Top Sci-Tech Co., Ltd., one of the subsidiaries of the Company, was entitled to the exemption from EIT for 2002. Other subsidiaries of the Company are subject to EIT at 33%.

There were no Hong Kong profits tax liabilities as the Group did not earn any income subject to Hong Kong profits tax.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Current taxation		
- Provision for current EIT	3,417	6,166
- Reversal of prior periods' overprovision for EIT	(722)	—
Deferred taxation	<u>—</u>	<u>(17)</u>
	<u>2,695</u>	<u>6,149</u>

Pursuant to Qing Yang Di Shui Shen [2002] No. 8 issued by the local tax bureau of Qing Yang District of Chengdu City on 8 November 2002, Chengdu Top Huaxi Information System Co., Ltd., one of the subsidiaries of the Company, was entitled to the exemption from EIT for 2001. In this connection, the EIT provided in 2001 was reversed in 2002.

The taxation of the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the Company as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Profit before taxation	<u>6,179</u>	<u>34,803</u>
Calculated at a taxation rate of 15% (2001: 15%)	927	5,220
Effect of different taxation rates in subsidiaries	42	371
Expenses not deductible for taxation purposes	2,448	558
Reversal of prior periods' overprovision	<u>(722)</u>	<u>—</u>
Taxation charge	<u>2,695</u>	<u>6,149</u>

(b) VAT

The Group's sales of self-manufactured products and purchased merchandise for resale are subject to VAT. The applicable tax rate for domestic sales is 17%.

Input VAT on purchases of raw materials and other production materials and merchandise can be netted off against output VAT from sales.

VAT payable or receivable is the net difference between periodic output and deductible input VAT.

(c) *Business tax ("BT")*

Revenues derived from providing maintenance, support and training services within the Group are subject to BT at a rate ranging from 3% to 5% on gross service income.

(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.

The Company has been recognized as a sino-foreign investment joint stock company on 15 July 2002, and was entitled to exemption from the above surtaxes in accordance with relevant tax regulation as from that date.

8 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of profit of approximately RMB 2,425,000 (2001: RMB 27,314,000).

9 Dividends

	2002	2001
	RMB	RMB
Final, proposed, per ordinary share	<u>—</u>	<u>0.02</u>

At a meeting held on 19 March 2002, the directors proposed a final dividend of RMB 0.02 per ordinary share for 2001, which was paid in June 2002. This proposed dividend was reflected as an appropriation of retained earnings for the year ending 31 December 2002.

The directors do not recommend the payment of any interim or final dividend for 2002.

10 Earnings per share

The calculation of basic profit per share is based on the Group's profit attributable to shareholders of approximately RMB 3,166,000 (2001: RMB 28,587,000) and the weighted average number of 676,000,000 ordinary shares (2001: 635,254,794) in issue during the year.

No diluted earnings per share is calculated as there were no potentially dilutive equities outstanding during either period.

11 Staff costs

The aggregate amounts of staff costs including directors' and supervisors' emoluments are as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Salaries, bonus and wages	5,183	7,025
Staff welfare fund	<u>426</u>	<u>917</u>
	<u>5,609</u>	<u>7,942</u>

12 Directors', supervisors' and senior management's emoluments

(a) *Directors' and supervisors' emoluments*

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Fees	—	—
Other emoluments:		
— basic salaries and allowances	271	472
— bonuses	<u>39</u>	<u>216</u>
	<u>310</u>	<u>688</u>

During the year, no amounts were paid to independent non-executive directors (2001: nil).

The emoluments of the directors fell within the following bands:

	Number of individuals	
	<i>2002</i>	<i>2001</i>
Emolument bands		
RMB nil - RMB 1,000,000	<u>15</u>	<u>16</u>

During the year, two directors resigned from executive positions and continued as non-executive directors of the Company. One independent non-executive director resigned from the board.

The executive directors received individual emoluments for the year ended 31 December 2002 of approximately RMB 64,000 (2001: RMB 80,000), RMB 64,000 (2001: RMB 80,000), RMB 48,000 (2001: RMB 60,000), RMB 48,000 (2001: RMB 60,000), RMB 48,000 (2001: RMB 60,000), respectively.

No directors waived any emoluments during the year. No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include two (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: three) individuals during the year are as follows:

	2002	2001
	RMB'000	RMB'000
Basic salaries and allowances, and other benefits	<u>830</u>	<u>750</u>

The emoluments fell within the following band:

	Number of individuals	
	2002	2001
Emolument bands		
RMB nil - RMB 1,000,000	<u>3</u>	<u>3</u>

13 Intangible assets

	Software copyrights RMB'000	Group and Patent RMB'000	Company Proprietary technology RMB'000	Total RMB'000
Year ended 31 December 2002				
Opening net book amount	64,041	3,376	1,422	68,839
Amortisation charge (Note 4)	<u>(11,671)</u>	<u>(1,351)</u>	<u>(1,422)</u>	<u>(14,444)</u>
Closing net book amount	<u>52,370</u>	<u>2,025</u>	<u>—</u>	<u>54,395</u>
At 31 December 2002				
Cost	88,357	8,778	7,110	104,245
Accumulated amortisation	<u>(35,987)</u>	<u>(6,753)</u>	<u>(7,110)</u>	<u>(49,850)</u>
Net book amount	<u>52,370</u>	<u>2,025</u>	<u>—</u>	<u>54,395</u>
At 31 December 2001				
Cost	88,357	8,778	7,110	104,245
Accumulated amortisation	<u>(24,316)</u>	<u>(5,402)</u>	<u>(5,688)</u>	<u>(35,406)</u>
Net book amount	<u>64,041</u>	<u>3,376</u>	<u>1,422</u>	<u>68,839</u>

In 1999, pursuant to an agreement between the Company and Top Group Sci-Tech Development Company Limited (previously known as “Sichuan Top Group Sci-Tech Development Company Limited”) (“Top Group”), the Company purchased software copyrights for RMB 88,357,000 from Top Group. According to a supplemental agreement, the Company and Top Group should appoint an international valuer to revalue the software copyrights as at 31 December 2004. Based on the revaluation report, if the value of the software copyrights as at 31 December 2004 is below RMB 30,000,000, Top Group is required to pay the difference between the value and RMB 30,000,000 to the Company or the Company has the right to sell the software copyrights back to Top Group for RMB 30,000,000.

14 **Fixed assets**

	Group			
	Buildings	Land use	Other	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost or valuation:				
At 1 January 2002	45,090	41,010	3,173	89,273
Additions	<u>1,623</u>	<u>—</u>	<u>223</u>	<u>1,846</u>
At 31 December 2002	<u>46,713</u>	<u>41,010</u>	<u>3,396</u>	<u>91,119</u>
Accumulated depreciation:				
At 1 January 2002	2,151	1,051	774	3,976
Charge for the year (Note 4)	<u>1,104</u>	<u>841</u>	<u>1,217</u>	<u>3,162</u>
At 31 December 2002	<u>3,255</u>	<u>1,892</u>	<u>1,991</u>	<u>7,138</u>
Net book value:				
At 31 December 2002	<u>43,458</u>	<u>39,118</u>	<u>1,405</u>	<u>83,981</u>
At 31 December 2001	<u>42,939</u>	<u>39,959</u>	<u>2,399</u>	<u>85,297</u>

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

	Group			
	Buildings	Land use	Other	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	1,634	—	3,396	5,030
At valuation	<u>45,079</u>	<u>41,010</u>	<u>—</u>	<u>86,089</u>
	<u>46,713</u>	<u>41,010</u>	<u>3,396</u>	<u>91,119</u>

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

	Group			
	Buildings	Land use	Other	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	11	—	3,173	3,184
At valuation	<u>45,079</u>	<u>41,010</u>	<u>—</u>	<u>86,089</u>
	<u>45,090</u>	<u>41,010</u>	<u>3,173</u>	<u>89,273</u>

	Company			
	Buildings	Land use	Other	Total
	<i>RMB'000</i>	<i>rights</i>	<i>equipment</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost or valuation:				
At 1 January 2002	45,090	41,010	3,173	89,273
Additions	<u>1,623</u>	<u>—</u>	<u>116</u>	<u>1,739</u>
At 31 December 2002	<u>46,713</u>	<u>41,010</u>	<u>3,289</u>	<u>91,012</u>
Accumulated depreciation:				
At 1 January 2002	2,151	1,051	774	3,976
Charge for the year	<u>1,104</u>	<u>841</u>	<u>1,208</u>	<u>3,153</u>
At 31 December 2002	<u>3,255</u>	<u>1,892</u>	<u>1,982</u>	<u>7,129</u>
Net book value:				
At 31 December 2002	<u>43,458</u>	<u>39,118</u>	<u>1,307</u>	<u>83,883</u>
At 31 December 2001	<u>42,939</u>	<u>39,959</u>	<u>2,399</u>	<u>85,297</u>

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

	Company			
	Buildings	Land use	Other	Total
	<i>RMB'000</i>	<i>rights</i>	<i>equipment</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	1,634	—	3,289	4,923
At valuation	<u>45,079</u>	<u>41,010</u>	<u>—</u>	<u>86,089</u>
	<u>46,713</u>	<u>41,010</u>	<u>3,289</u>	<u>91,012</u>

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

	Company			
	Buildings	Land use	Other	Total
	<i>RMB'000</i>	<i>rights</i>	<i>equipment</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	11	—	3,173	3,184
At valuation	<u>45,079</u>	<u>41,010</u>	<u>—</u>	<u>86,089</u>
	<u>45,090</u>	<u>41,010</u>	<u>3,173</u>	<u>89,273</u>

The Group's buildings and land use rights as at 31 December 2000 were appraised by Sallmanns (Far East) Limited, independent professional valuers, on 26 March 2001. These properties were appraised on an open market basis and are carried in the balance sheet at market value. As a result of the appraisal, an increase in value of the Group's buildings and land use rights of approximately RMB 39,485,000 as at 31 December 2000 was credited to the revaluation surplus.

15 Investments in subsidiaries

	Company	
	2002	2001
	RMB'000	RMB'000
Investments at cost:		
Unlisted shares	<u>40,000</u>	<u>19,000</u>

The following were the significant subsidiaries at 31 December 2002:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid-in capital	Interest held
Chengdu Top Huaxi Information System Co., Ltd.	PRC, limited liability company	The same as those of the Group, PRC	RMB 10,000,000	95%
Chengdu Top Huaxi Electronics Technology Co., Ltd.	PRC, limited liability company	The same as those of the Group, PRC	RMB 10,000,000	95%
Shanghai Top Sci-Tech Co., Ltd.	PRC, limited liability company	The same as those of the Group, PRC	RMB 30,000,000	70%

16 Investment securities

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Equity securities:		
Unlisted equity securities	<u>9,050</u>	<u>9,050</u>

Investments in equity securities represented investments in unlisted companies incorporated in the PRC and are stated at cost.

17 Inventories

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Work-in-progress on contracts	5,644	14,132	2,640	14,067
Merchandise goods for sale	<u>6,770</u>	<u>4,302</u>	<u>1,916</u>	<u>1,659</u>
	<u>12,414</u>	<u>18,434</u>	<u>4,556</u>	<u>15,726</u>
Less: provision for obsolescence	<u>(2,921)</u>	<u>(1,374)</u>	<u>(2,019)</u>	<u>(1,373)</u>
	<u>9,493</u>	<u>17,060</u>	<u>2,537</u>	<u>14,353</u>

As at 31 December 2002, the carrying amount of inventories that are carried at net realisable value amounted to approximately RMB 2,341,000 (2001: RMB 346,000).

18 Trade and other receivables

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, net (Note a)	51,261	23,179	37,305	21,135
Prepayments	4,673	9,284	422	2,643
Other receivables, net (Note b)	<u>8,861</u>	<u>4,879</u>	<u>8,780</u>	<u>4,897</u>
	<u>64,795</u>	<u>37,342</u>	<u>46,507</u>	<u>28,675</u>

Notes:

(a): As at 31 December 2002, the ageing analysis of the trade receivables was as follows:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not exceeding one year	48,927	19,527	34,453	17,377
More than one year but not exceeding two years	9,595	6,212	9,595	6,212
More than two years but not exceeding three years	4,450	2,436	4,450	2,435
More than three years	<u>10,106</u>	<u>7,236</u>	<u>10,106</u>	<u>7,236</u>
	73,078	35,411	58,604	33,260
Less: provision for doubtful debts	<u>(21,817)</u>	<u>(12,232)</u>	<u>(21,299)</u>	<u>(12,125)</u>
	<u>51,261</u>	<u>23,179</u>	<u>37,305</u>	<u>21,135</u>

(b): As at 31 December 2002, the breakdown of other receivables was as follows:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	15,556	6,101	15,403	6,093
Less: provision for doubtful debts	<u>(6,695)</u>	<u>(1,222)</u>	<u>(6,623)</u>	<u>(1,196)</u>
	<u>8,861</u>	<u>4,879</u>	<u>8,780</u>	<u>4,897</u>

19 Trade payables

As at 31 December 2002, all trade payables were payable within one year (2001: all within one year).

20 Current portion of long-term loans

As at 31 December 2001, the long-term loan, with period from February 2001 to August 2002, was unsecured and interest bearing at 7.128% per annum. In August 2002, the loan was repaid.

21 Warranty provisions

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Balance, beginning of year	733	680	733	680
Additional provisions	—	845	—	845
Less: unused amounts reversed	(245)	—	(291)	—
Less: amounts utilised	(345)	(792)	(327)	(792)
Balance, end of year	<u>143</u>	<u>733</u>	<u>115</u>	<u>733</u>

The Group provides one year warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of approximately RMB 143,000 (2001: RMB 733,000) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

22 Pensions and other post retirement obligations

The Group has not set up its own housing and retirement scheme for its employees. In compliance with relevant PRC laws and regulations, it is the Group's policy to register its employees with the relevant schemes with local social security bureau upon their joining the Group. Thereafter, the Group would deduct contribution from the employees' payroll and the total amount will be charged as part of employee's salaries. The cost and benefits of the schemes vest fully with the employees. During the year, the Group did not incur any other expenses in providing housing and retirement schemes to its employees. Except as disclosed above, the Group does not have any other obligation in relation to housing and retirement benefits of its employees.

23 Share capital

As at 31 December 2002, details of the Company's share capital were as follows:

	Number of shares		Amount	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Registered, issued and fully paid				
Legal person shares with par value of RMB 0.1 each	351,000	351,000	35,100	35,100
Individual shares with par value of RMB 0.1 each	156,000	156,000	15,600	15,600
H shares with par value of RMB 0.1 each	<u>169,000</u>	<u>169,000</u>	<u>16,900</u>	<u>16,900</u>
	<u>676,000</u>	<u>676,000</u>	<u>67,600</u>	<u>67,600</u>

On 30 March 2001, 169,000,000 H shares with par value of RMB 0.1 each were issued at Hong Kong dollar ("HK\$") 0.72, equivalent to RMB 0.77.

Movements in the Company's share capital during the year were as follows:

	Number of shares		Amount	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Balance, beginning of year	676,000	507,000	67,600	50,700
Issue of shares	<u>—</u>	<u>169,000</u>	<u>—</u>	<u>16,900</u>
Balance, end of year	<u>676,000</u>	<u>676,000</u>	<u>67,600</u>	<u>67,600</u>

24 Reserves

	Group						
	Share premium	Revaluation surplus	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2001	(347)	39,485	13,522	7,936	10,220	63,032	133,848
Net profit for the year	—	—	—	—	—	28,587	28,587
Issue of shares	96,754	—	—	—	—	—	96,754
Transfers to statutory reserves	—	—	3,614	1,807	—	(5,421)	—
At 31 December 2001	<u>96,407</u>	<u>39,485</u>	<u>17,136</u>	<u>9,743</u>	<u>10,220</u>	<u>86,198</u>	<u>259,189</u>
At 1 January 2002	96,407	39,485	17,136	9,743	10,220	86,198	259,189
Dividends	—	—	—	—	—	(13,520)	(13,520)
Net profit for the year	—	—	—	—	—	3,166	3,166
Transfers to statutory reserves	—	—	2,008	1,004	—	(3,012)	—
At 31 December 2002	<u>96,407</u>	<u>39,485</u>	<u>19,144</u>	<u>10,747</u>	<u>10,220</u>	<u>72,832</u>	<u>248,835</u>

	Company						
	Share premium	Revaluation surplus	Statutory surplus reserve	Statutory public welfare Fund	Discretionary surplus reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2001	(347)	39,485	13,522	7,936	10,220	63,032	133,848
Net profit for the year	—	—	—	—	—	27,314	27,314
Issue of shares	96,754	—	—	—	—	—	96,754
Transfers to statutory reserves	—	—	3,487	1,743	—	(5,230)	—
At 31 December 2001	<u>96,407</u>	<u>39,485</u>	<u>17,009</u>	<u>9,679</u>	<u>10,220</u>	<u>85,116</u>	<u>257,916</u>
At 1 January 2002	96,407	39,485	17,009	9,679	10,220	85,116	257,916
Dividends	—	—	—	—	—	(13,520)	(13,520)
Net profit for the year	—	—	—	—	—	2,425	2,425
Transfers to statutory reserves	—	—	1,886	943	—	(2,829)	—
At 31 December 2002	<u>96,407</u>	<u>39,485</u>	<u>18,895</u>	<u>10,622</u>	<u>10,220</u>	<u>71,192</u>	<u>246,821</u>

(a) Capital surplus

On 30 March 2001, 169,000,000 H shares with par value of RMB 0.1 each were issued at HK\$ 0.72, equivalent to RMB 0.77. The share premium, net of underwriter commissions and professional fees, of approximately RMB 96,754,000 was recorded as capital surplus.

(b) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and the Company and its subsidiaries' articles of association, the Company and its subsidiaries are required to appropriate 10% and 5% of their annual statutory net profit, after offsetting any prior years' losses, to the statutory surplus reserve and statutory public welfare fund respectively. When the balance of the statutory surplus reserve reaches 50% of the company's share capital, any further appropriation is optional. The statutory surplus reserve can be used to offset prior year's losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of share capital. The statutory public welfare fund can only be utilised on capital expenditure for the collective benefit of the Company and its subsidiaries' employees such as the construction of dormitories, canteen and other staff welfare facilities. The title of these capital items remains with the Company and its subsidiaries. This fund is non-distributable other than in liquidation.

(c) Discretionary surplus reserve

As stated in the Company and its subsidiaries' articles of association, the Company and its subsidiaries can appropriate their annual statutory net profit to the discretionary surplus reserve fund after the appropriation of statutory surplus reserve fund and statutory public welfare fund.

(d) Appropriation of reserves

For the year ended 31 December 2002, the directors of the Company resolved to appropriately RMB 1,886,000 and RMB 943,000 (the Group: RMB 2,008,000 and RMB 1,004,000) to the statutory surplus reserve and statutory public welfare fund respectively.

For the year ended 31 December 2001, the directors of the Company resolved to appropriate RMB 3,487,000 and RMB 1,743,000 (the Group: RMB 3,614,000 and RMB 1,807,000) to the statutory surplus reserve and statutory public welfare fund respectively.

25 Consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2002 RMB'000	2001 RMB'000
Profit before taxation	6,179	34,803
Provision for (write-back of) doubtful debts	15,058	(1,372)
Provision for inventory obsolescence	1,547	1,233
Depreciation of fixed assets	3,162	2,169
Amortisation of intangible assets	14,444	14,444
Interest expense	1,428	2,128
Interest income	<u>(1,995)</u>	<u>(908)</u>
Operating profit before working capital changes	39,823	52,497
Decrease (increase) in inventories	6,020	(9,734)
Increase in trade and other receivables	(42,511)	(2,807)
Decrease (increase) in amounts due from related parties	9,576	(12,875)
Increase in trade payables	2,306	1,639
Increase (decrease) in other payables and accruals	4,217	(9,264)
(Decrease) increase in warranty provisions	(590)	53
Decrease in amounts due to related parties	(2,278)	(1,859)
Increase (decrease) in taxation payable	<u>4,038</u>	<u>(5,746)</u>
Net cash inflow from operations	<u>20,601</u>	<u>11,904</u>

(b) Analysis of changes in financing during the year

	Share capital					
	Dividend payable		including premium		Minority interests	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Balance, beginning of year	—	—	164,007	50,353	1,067	—
Minority interests' share of profits	—	—	—	—	318	67
Dividends	13,520	—	—	—	—	—
Cash inflows (outflows)	<u>(13,520)</u>	—	—	113,654	<u>9,000</u>	<u>1,000</u>
Balance, ending of year	<u>—</u>	<u>—</u>	<u>164,007</u>	<u>164,007</u>	<u>10,385</u>	<u>1,067</u>

(c) *Analysis of cash and cash equivalents at 31 December 2002*

	Group	
	2002	2001
	RMB'000	RMB'000
Cash on hand	94	1
Cash in banks		
- Current deposits	103,414	60,334
- Fixed deposits (i)	30,128	24,395
Deposits in other financial institution (ii)	<u>—</u>	<u>67,091</u>
	<u>133,636</u>	<u>151,821</u>

(i) Fixed deposits in banks

As at 31 December 2002, fixed deposits represented cash deposited in banks with interest at a rate of 1.71% (2001: 1.25%) per annum. The deposits are renewed every three months.

(ii) Deposits in other financial institution

As at 31 December 2001, deposits in other financial institution represented cash deposited in Sichuan Finance Lease Company Limited (“Sichuan Finance Lease”), a related party of the Company, with interest at rates ranging from 0.99% to 5.85% per annum.

In February 2002, the Company withdrew the cash deposited in Sichuan Finance Lease and deposited the cash in commercial banks.

26 Related party transactions

(a) *Information on related parties and their relationships with the Group are as follows:*

Name of related party	Relationship
Sichuan Topsoft Investment Company Limited (previously known as “Sichuan Top Software Company Limited”) (“Topsoft Investment”)	Majority shareholder of the Company
Sichuan Top Sci-Tech Development Company (“Top Development”)	Ultimate holding company

Sichuan Top Computer Company Limited (previously known as “Sichuan Top Electronics Technology Company Limited”) (“Top Computer”)	Shareholder of the Company
Top Group	Subsidiary of Top Development
Sichuan Finance Lease	Subsidiary of Top Development
Chengdu Top Chang Zheng Network Company Limited (“Top Chang Zheng”)	Previous subsidiary of Topsoft Investment before March 2002 (Topsoft Investment disposed its shares in Top Chang Zheng to third party in March 2002)
Zigong Top Computer Company Limited (“Zigong Top”)	Previous subsidiary of Topsoft Investment before January 2002 (Topsoft Investment disposed its shares in Zigong Top to third party in January 2002)
Xian Top Software Company Limited (“Xian Top”)	Subsidiary of Topsoft Investment
Sichuan Top Telecommunication Company Limited (previously known as “Sichuan Tuo Ya Sci-Tech Company Limited”) (“Top Telecommunication”)	Subsidiary of Topsoft Investment
Yunnan Top Software Company Limited (“Yunnan Top”)	Subsidiary of Topsoft Investment
Top Northeast Software Park (Anhan) Company Limited (“Top Northeast Software Park”)	Subsidiary of Topsoft Investment
Top Northwest Software Park (Xian’yang) Company Limited (“Top Northwest Software Park”)	Subsidiary of Topsoft Investment

(b) The Group had the following material transactions with related parties for the year ended 31 December 2002:

	2002	2001
	RMB'000	RMB'000
(1) Sales of goods to related parties:		
Top Northeast Software Park	855	—
Yunnan Top	740	—
Top Group	598	—
Top Northwest Software Park	215	—
Top Development	193	—
Xian Top	150	—
Top Chang Zheng	10	367
Top Computer	—	974
Zigong Top	—	698
Topsoft Investment	—	422
	<u>2,761</u>	<u>2,461</u>
(2) Purchases of contract materials from related parties:		
Topsoft Investment	95	—
Top Telecommunication	30	—
Top Computer	3	7,913
Top Chang Zheng	—	80
	<u>128</u>	<u>7,993</u>
(3) Property construction costs payable to a related party:		
Top Development	<u>1,463</u>	<u>—</u>

On 8 March 2001, the Company entered into a construction contractor agreement with Top Development. Pursuant to this agreement, Top Development will construct for the Company buildings, fixtures and fittings to be used in the Company's research and development centers for a fee to be agreed upon by the parties, provided such fee does not exceed an amount the Company may procure in an arms-length transaction with an unrelated third party contractor. The agreement will expire on 31 December 2003. The Company may terminate the agreement at any time upon six months' prior notice to Top Development.

	2002	2001
	RMB'000	RMB'000
(4) Rental income from a related party:		
Top Group	<u>1,243</u>	<u>1,335</u>

Pursuant to a property leasing agreement entered into between the Company and Top Group, the Company agreed to lease three buildings, namely Xiruan No. 1, 2 and 15, with a total gross floor area of approximately 10,531.18 square meter located at Top Road, Hong Guang Zhen, Chengdu City, Sichuan Province, the PRC to Top Group from 1 January 2001 to 31 December 2003.

	2002	2001
	RMB'000	RMB'000
(5) Equipment leasing fee payable to related parties:		
Top Group	<u>110</u>	<u>749</u>
	2002	2001
	RMB'000	RMB'000
(6) Composite services fees payable to a related party:		
Top Group	<u>830</u>	<u>1,453</u>

On 8 March 2001, the Company entered into a composite services agreement with Top Group whereby Top Group will provide the following services to the Company:

- Printing services
- Supply of water and electricity
- Telecommunication services
- Vehicle leasing services

The composite services agreement will expire on 31 December 2003 and the services shall be provided at:

- (i) Nation-wide government prescribed prices;
- (ii) Where there is no nation-wide government prescribed price, the prescribed price for Sichuan province or Chengdu will apply;
- (iii) Where there is neither a nation-wide government prescribed price nor a prescribed price for Sichuan province or Chengdu, the price to be agreed between the relevant parties for the provision of the above services, which, in any event, shall not exceed reasonable cost plus 20% margin.

	2002	2001
	RMB'000	RMB'000
(7) Rental expenses payable to a related party:		
Top Group	<u>400</u>	<u>400</u>

On 1 May 2000, the Company entered into a property leasing agreement with Top Group. Based on the agreement, Top Group agreed to let a property to the Company for a term of four years commencing from 1 May 2000. The rental per year is RMB 400,000.

	2002	2001
	RMB'000	RMB'000
(8) Interest income from a related party		
Sichuan Finance Lease	<u>748</u>	<u>—</u>

As at 31 December 2001, the Company had cash deposits in Sichuan Finance Lease amounted to RMB 67,091,000, with interest at rates ranging from 0.99% to 5.85% per annum (Note 25(c)).

In February 2002, the Company withdrew the cash deposited in Sichuan Finance Lease and deposited the cash in commercial banks, and received interest income of approximately RMB 748,000.

- (c) The amounts due from and due to related parties were unsecured, non-interest bearing and with no fixed repayment date and primarily arose from the above transactions.
- (d) In the opinion of the directors, the above related party transactions were entered into under normal commercial terms in the ordinary course of the Company's business and in accordance with the terms of the agreements governing the transactions.

27 Contingent liabilities

As at 31 December 2002, the Group had no significant contingent liabilities.

28 Commitments

As at 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002	2001
	RMB'000	RMB'000
Not later than one year	424	679
Later than one year and not later than five years	<u>—</u>	<u>892</u>
	<u>424</u>	<u>1,571</u>

29 Subsequent events

No significant events have taken place subsequent to 31 December 2002.

30 Ultimate holding company

The directors regard Sichuan Top Sci-Tech Development Company, a company incorporated in the PRC, as being the ultimate holding company.

31 Approval of financial statements

The financial statements were approved by the board of directors on 20 March 2003.

This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its publication.