

**If you are in any doubt** about this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in **Chengdu Top Sci-Tech Company Limited**, you should at once hand this circular with the accompanying reply slip and form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**成都托普科技股份有限公司**  
**Chengdu Top Sci-Tech Company Limited\***

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

**ONGOING CONNECTED TRANSACTIONS**

**Financial advisor to Chengdu Top Sci-Tech Company Limited**



**Core Pacific - Yamaichi Capital Limited**

**Independent financial advisor to the independent board committee**

**TANRICH**

**Tanrich Capital Limited**

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A letter from the Independent Board Committee of the Company is set out on pages 10 to 11 of this circular.

A letter from Tanrich Capital Limited containing its advice to the Independent Board Committee of the Company is set out on pages 12 to 17 of this circular.

A notice convening the EGM of the Company to be held at Xiruan, Top Road, Hong Guang Zhen, Pi County, Chengdu, the PRC on 14 November 2003 at 10:00 a.m. is set out on pages 25 to 27 of this circular. A reply slip and a form of proxy are also enclosed. Whether or not you are intending to attend and vote at the EGM, you are requested to complete and return the enclosed reply slip and proxy form in accordance with the instructions printed thereon to the Company's share registrars, Hong Kong Registrars Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event for reply slip, on or before 24 October 2003 and for proxy form, not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for 7 days from the date of its posting.

\* For identification purpose only

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## CHARACTERISTIC OF GEM

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the 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 at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.

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# CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	3
<b>Letter from the Independent Board Committee</b> .....	10
<b>Letter of advice from Tanrich Capital Limited</b> .....	12
<b>Appendix — General information</b> .....	18
<b>Notice of Extraordinary General Meeting</b> .....	25

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Board”	the board of Directors
“cap”	the maximum annual aggregate value of a transaction
“Company”	Chengdu Top Sci-Tech Company Limited
“Composite Services Agreement”	the composite services agreement entered into between the Company and Top Group on 19 September 2003, pursuant to which Top Group will provide composite services for the Company
“CPY”	Core Pacific - Yamaichi Capital Limited, a deemed licenced corporation for type 1, 4, 6 and 9 regulated activities, under the SFO and the financial advisor to the Company
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and approving the Ongoing Connected Transactions
“GEM Listing Rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong (as amended from time to time)
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the committee of the Board, comprising Yang Ji Ke, Li Ming Shu, Wang Ming Dong and Xiao Bin, each an independent non-executive Director, established to advise the Independent Shareholders in respect of the Ongoing Connected Transactions
“Independent Shareholders”	shareholders of the Company, other than Top Group, and its associates, as defined in the GEM Listing Rules
“Latest Practicable Date”	19 September 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Ongoing Connected Transactions”	continuing connected transactions between the Company and Top Group as more particularly stated in this circular

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## DEFINITIONS

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“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company dated 26 March 2001
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Supply Agreement”	the information technology products supplies services agreement entered into between the Company and Top Group on 19 September 2003, pursuant to which Top Group will purchase certain information technology products and services from the Company
“Top Development”	Top Sci-Tech Development Company, a company incorporated in the PRC, holding an aggregate direct and indirect interest of 50.95% in the Company
“Top Group”	Top Group Technology Development Company Limited, a company incorporated in the PRC, and being a subsidiary of, and owned as to 62% by, Top Development

*In this circular, unless otherwise indicated, the exchange rate at HK\$1.00 = RMB1.06 has been used for the purpose of illustration only and it does not constitute a representation that any amount has been or could have been or may be exchanged at such exchange rate.*



成都托普科技股份有限公司

**Chengdu Top Sci-Tech Company Limited\***

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

*Executive Directors:*

Li Zheng Bin  
Ma Jun  
Fan Jing Ru  
Chen Zhong Hao  
Wang Zu Long

*Legal Address:*

Tu Qiao Industrial Development Zone  
Jin Niu District  
Chengdu  
The PRC

*Non-executive Director:*

Huang Wei Bun

*Principal Place of Business in the PRC:*

Top Group Headquarter  
Hua Qiao Economic Technics  
Development Zone

*Independent non-executive Directors:*

Yang Ji Ke  
Li Ming Shu  
Wang Ming Dong  
Xiao Bin

Su Po Xiang  
Chengdu  
The PRC

*Principal Place of Business in Hong Kong:*

Room 1112, K. Wah Centre  
191 Java Road  
North Point  
Hong Kong

24 September 2003

*To the Shareholders*

*Dear Sir or Madam,*

## **ONGOING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

On 10 September 2003, the Company announced that the Board of the Company had passed resolutions pursuant to which the Company would enter into Composite Services Agreement and Supply Agreement on 19 September 2003. Such agreements have been entered into by the Company and Top Group on 19 September 2003.

According to the GEM Listing Rules, the transactions as contemplated by the Composite Services Agreement and the Supply Agreement constitute non-exempt continuing connected transactions for the Company, therefore are subject to disclosure requirements by way of announcement and, where applicable, approvals by the Independent Shareholders.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The Company has appointed Core Pacific - Yamaichi Capital Limited as its financial advisor in connection with the Ongoing Connected Transactions and has appointed Tanrich Capital Limited as independent financial advisor to provide opinions to the independent board committee in relation thereto.

The purpose of this circular is to provide you with further information relating to each Ongoing Connected Transaction and to seek for your approval thereof. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 10 to 11 of this circular.

### THE COMPANY AND ITS RELATIONSHIP WITH TOP GROUP

The principal business of the Group includes provision of system solution services and other value added services such as technology consultancy, after-sales support, training services and sales of IT related products. The Company is also engaged in the research, development, production and distribution of IT solutions of government administration systems.

As the major controlling shareholder of the Company, Top Development holds an aggregate of 50.95% direct and indirect interest in the Company, whilst Top Group is a 62% subsidiary of Top Development. Under the GEM Listing Rules, Top Group is a connected person of the Company. Transactions between the Company and Top Group constitute connected transactions under the GEM Listing Rules, subject to the disclosure requirements thereof.

Top Group is principally engaged in the sales and integration of electronic products, machines, communication equipment, computers and computer accessories. Unlike the Company, the business of which focuses on the government-related entities in the PRC, Top Group only focuses its business on the private sector. The Directors believe that there is no business competition between the Company and Top Group.

### ONGOING CONNECTED TRANSACTIONS

#### Composite Services Agreement

Pursuant to the Composite Services Agreement, Top Group will provide the following services to the Company:

Supply of Water and Electricity:	As the Company leases office space from Top Group, Top Group supplies the water (for sanitation purposes) and electricity used by the Company in the operation and maintenance of the leased space.
Telecommunication Services:	Top Group provides telecommunication services to the Company.
Vehicle Leasing Services:	Top Group provides the transportation services to the Company to transport its guests and employees.
Building Maintenance Services:	Top Group provides building maintenance services to the Company.

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## LETTER FROM THE BOARD

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The Composite Services Agreement will commence on 1 January 2004 and expire on 31 December 2006 and the terms of the services shall be provided as follows:

- (1) nation-wide government prescribed price;
- (2) where there is no nation-wide government-prescribed price, the prescribed price for Sichuan province or Chengdu will apply;
- (3) 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 the reasonable cost plus 20 per cent margin.

Such terms are no less favourable than terms offered to the associates (as defined under the GEM Listing Rules) of Top Group for provision of such composite services. The Directors further confirm that Top Group does not provide such services to independent third party.

Top Group began to provide similar composite services to the Company in 1999. In preparation of the Company's listing on the GEM of the Stock Exchange of Hong Kong in March 2001, the Company and Top Group entered into a composite services agreement on 8 March 2001 to rationalize the arrangement regarding the provision of composite services by Top Group to the Company. Details of such services were set out in the Prospectus. The Stock Exchange had granted a waiver to the Company for exemption from strict compliance of Rule 20.35 of the GEM Listing Rules. Pursuant to such waiver, the annual cap for each of the financial year 2001, 2002 and 2003 is RMB2,000,000 respectively. For the years ended 31 December 2000, 2001, 2002 and the first six months of 2003, the services fees paid by the Group to Top Group were approximately RMB1,863,000, RMB1,453,000, RMB830,000 and RMB586,000 respectively.

The Directors (including independent non-executive Directors) consider that the use of the aforesaid composite services provided by Top Group could reduce the operation cost of the Company. As the Company is an IT company, this would reduce the Company's administrative personnel and allow it to concentrate on business development activities. The Directors propose that the annual cap for the fees payable for each of the three financial years ending 31 December 2006, by the Company to Top Group shall be RMB2,000,000 per year. The figure is set by reference to the anticipated development of the business of the Company.

Top Group would receive fees by providing composite services and the Company would settle the fees on a periodic basis or when the services are rendered.



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## LETTER FROM THE BOARD

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### Supply Agreement

Pursuant to the Supply Agreement, Top Group will purchase from the Company certain information technology products and services at a price not less than fair market value of such information technology products and services or an amount the Company would ordinarily charge to an unrelated third-party, whichever is higher. The agreement will take effect on 1 January 2004 and expire on 31 December 2006. The Company may terminate the agreement upon 6-month prior notice to Top Group.

The Supply Agreement allows the Company to sell its products and services to Top Group, thus increasing the Company's turnover. Top Group has strong business connections and network, and Top Group may require the Company to provide IT products or services to them and its clients. The Company believes that Top Group may expect a more reliable services provided by the Company.

Top Group is a large and well-known company in the PRC. Although the strong business connection with Top Group does not provide direct benefits to the Company, it may indirectly lead to additional business opportunities for the Company if Top Group's businesses experience significant growth which translate into demand for the Company's products and services.

The Company's existing products and services are not designed directly for the private sector. The customers or the end-users of Top Group are thus not the target customers of the Company. However, certain Company's products and services can be used for the integration of Top Group's products and services which are targeted at the private sector. Top Group will integrate the products and services purchased from the Company with its own by adding value-added components thereto. In the premises, there is no competition between the Company and Top Group. The relationship between the Company and Top Group can be considered as supplier and customer relationship rather than a competitor relationship.

The Group provided products and services to Top Group amounting to approximately RMB1,493,000, RMB44,000 and RMB598,000 in the financial years 1999, 2000 and 2002 respectively representing 1.4%, 0.1% and 0.5% of the total turnover of the Group for the relevant period. The Directors propose that the annual cap in respect of the supply by the Company to Top Group paid by Top Group to the Company for each of the three financial years ending 31 December 2006 be RMB20,000,000 per year. The annual cap was indicated by Top Group to the Company as the estimated demand for each of the coming three years. To the best knowledge of the Directors, the proposed annual cap represents only a small portion of the annual turnover of Top Group. As the Company acts on the request from Top Group in providing products and services in this area, the proposed cap is set solely based on the estimated demand from Top Group.

Pursuant to the Supply Agreement, the Company would have separate underlying agreement(s) in respect of each supply transaction of information technology products and services to be placed by Top Group in order to determine the name of products and services, quantity, price, standard of quality of the provision of products and/or services. Same type of transaction in the market would be referred so as to ensure that the price and the schedule of payment by the Company is fair and reasonable.

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## LETTER FROM THE BOARD

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### REASONS FOR, AND BENEFITS OF, THE ONGOING CONNECTED TRANSACTIONS

According to the GEM Listing Rules, the transactions mentioned in this circular constitute continuing connected transactions, so that the requirements of reporting, announcement, shareholders' approval and annual review shall apply.

The Directors (including the independent non-executive Directors) believe that the terms of the Ongoing Connected Transactions are made on arm's length basis and on normal commercial terms which are no less favourable than terms available to or from independent third parties. The Directors (including the independent non-executive Directors) believe that such terms are made in the ordinary and usual course of business of the Company and are fair and reasonable and in the interest of the Company's shareholders as a whole.

### CONDITIONS

The Ongoing Connected Transactions are subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and/or the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. An application will be made to the Stock Exchange for a waiver from strict compliance with Rule 20.35 and Rule 20.36 of the GEM Listing Rules.

The Stock Exchange has indicated that the waivers as requested would be granted to the Company on the conditions stated below for three years expiring on 31 December 2006 (the "Waiver Period"):

- (A) in any financial year during the Waiver Period, the respective consideration in respect of each of the Ongoing Connected Transactions does not exceed their respective cap;
- (B) details of each of the Ongoing Connected Transactions shall be disclosed in the Company's annual report as described in Rules 20.34(1) to (5) of the GEM Listing Rules;
- (C) the independent non-executive Directors shall review the Ongoing Connected Transactions annually and confirm in the Company's annual report and accounts for the year in question that such Ongoing Connected Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Company;
  - (b) on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
  - (c) in accordance with the relevant agreement governing them and on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole;

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## LETTER FROM THE BOARD

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- (D) each year the auditors of the Company shall review the Ongoing Connected Transactions and provide a letter to the Board (with a copy to the GEM Listing Division) confirming that the Ongoing Connected Transactions:
- (a) have received the approval of the Board;
  - (b) are in accordance with the pricing policies of the Company if the transactions involve the provision of goods or services by the Company;
  - (c) have been entered into in accordance with the relevant agreements governing the transactions; and
  - (d) the respective consideration in respect of each of the Ongoing Connected Transactions has not exceeded their respective caps;
- (E) the Company shall promptly notify the GEM Listing Division of the Stock Exchange if it knows or has reasons to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.27 and/or 20.28, respectively, the Company may have to re-comply with Rules 20.26(3) and (4) and any other conditions as the GEM Listing Division of the Stock Exchange considers appropriate;
- (F) in addition to complying with Rules 20.26 to 20.28 of the GEM Listing Rules, where (i) the aggregate consideration under each Ongoing Connected Transaction in any year is to be greater than the annual cap, or (ii) such cap in any year is to be greater than the higher of HK\$10 million or 3 per cent of the net tangible assets of the Company, the transaction and the aggregate consideration (or the cap) are subject to review and new approval by independent shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the transaction continues. The independent non-executive Directors will be required to opine in the annual report whether or not the Company should continue with the agreement for the transaction; and
- (G) in relation to any Ongoing Connected Transaction, the Company and the counterparty to such Ongoing Connected Transactions shall submit to the Stock Exchange an undertaking that it will allow the auditors of the Company sufficient access to their records for the purpose of reporting on the transactions as set out in Rule 20.28 of the GEM Listing Rules.

If there are changes or updates in any terms of the above agreements and contracts or that the Company and any connected persons (within the definition of the existing GEM Listing Rules) reach any new arrangements, the Company undertakes to comply with the requirements in the corresponding provisions of Chapter 20 of the GEM Listing Rules, unless the Company reports to the Stock Exchange and is granted an exemption. In addition, when the above limits are likely to be exceeded, the Company shall promptly notify the Stock Exchange in writing and seek the approval of Independent Shareholders if necessary.

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## LETTER FROM THE BOARD

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### THE EGM

A notice convening the EGM of the Company to be held at Xiruan, Top Road, Hong Guang Zhen, Pi County, Chengdu, the PRC on 14 November 2003 at 10:00 a.m. is set out on pages 25 to 27 of this circular. Ordinary resolutions will be proposed at the meeting to approve the Ongoing Connected Transactions and the relevant agreements.

In accordance with the GEM Listing Rules, Top Group and its associates will abstain from voting on the resolutions to approve the Ongoing Connected Transactions at the EGM.

A reply slip and a form of proxy are also enclosed. Whether or not you are intending to attend and vote at the EGM, you are requested to complete and return the enclosed reply slip and proxy form in accordance with the instructions printed thereon to the Company's share registrars, Hong Kong Registrars Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event for reply slip, on or before 24 October 2003 and for proxy form not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM.

### RECOMMENDATION

As set out in its letter to the Shareholders, based on the advice of Tanrich Capital Limited, the Independent Board Committee is of the view that the terms of the Ongoing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. The recommendations and advice from the Independent Board Committee and Tanrich Capital Limited are set out on pages 10 to 11 and pages 12 to 17 of this circular respectively.

Yours faithfully,  
For and on behalf of the Board  
**Chengdu Top Sci-Tech Company Limited**  
**Li Zheng Bin**  
*Chairman*



成都托普科技股份有限公司

**Chengdu Top Sci-Tech Company Limited\***

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

24 September 2003

*To the Independent Shareholders*

Dear Sir or Madam,

## **ONGOING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to the circular dated 24 September 2003 (the “Circular”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

Under the GEM Listing Rules, the Ongoing Connected Transactions are required to be approved by the Independent Shareholders at a general meeting of the Company. We being the independent non-executive Directors constituting the Independent Board Committee are writing to you to set out our opinion in respect of the Ongoing Connected Transactions. The Independent Board Committee was set up to advise you as a shareholder whether in its view the terms of the Ongoing Connected Transactions and the relevant agreements are fair and reasonable and in the interests of the shareholders of the Company as a whole.

We wish to draw your attention to the letter from the Board of Directors as set out on pages 3 to 9 of the Circular and the letter from Tanrich Capital Limited as set out on pages 12 to 17 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms of the Ongoing Connected Transactions with the principal factors and reasons for its advice and recommendation.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATION

Having taken into account the advice and recommendation of Tanrich Capital Limited, we consider that the Ongoing Connected Transactions and the relevant agreements are in the interests of the Company and the shareholders of the Company as a whole and the terms of the Ongoing Connected Transactions and the relevant agreements are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed to approval the Ongoing Connected Transactions and the relevant agreements.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee  
**Yang Ji Ke**  
**Li Ming Shu**  
**Wang Ming Dong**  
**Xiao Bin**

*Independent non-executive Directors*

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# LETTER OF ADVICE FROM TANRICH CAPITAL LIMITED

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*The following is the text of the letter of advice from Tanrich Capital Limited, the independent financial adviser to the Independent Board Committee, in relation to the Ongoing Connected Transactions, which has been prepared for the purpose of incorporation into this circular.*



**Tanrich Capital Limited**  
16/F Central Plaza  
18 Harbour Road  
Wan Chai  
Hong Kong

24 September 2003

The Independent Board Committee  
Chengdu Top Sci-Tech Company Limited  
Top Group Headquarter  
Hua Qiao Economic Technics Development Zone  
Su Po Xiang  
Chengdu  
The PRC

Dear Sirs,

## ONGOING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our appointment by the Company as the independent financial adviser to the Independent Board Committee to give our recommendation as to whether the terms of the Ongoing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned, particulars of which have been set out in a circular to the Shareholders dated 24 September 2003 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as defined in the Circular.

In formulating our opinion and recommendation, we have relied on the statements, information and facts supplied by, the opinions expressed by and the representations of, the Directors and management of the Company and its subsidiaries concerning the Ongoing Connected Transactions, including those facts, opinions and representations set out in the Circular and we have assumed that all such information and all statements, information, opinion and representations contained or referred to in the Circular were true, complete and accurate in all aspects at the time they were made and given and continue to be so in all respects as at the date of dispatch of the Circular. We have also assumed that all statements of beliefs, opinions and intentions made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions. The Directors have confirmed that they take full responsibility for the contents of the Circular.

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## LETTER OF ADVICE FROM TANRICH CAPITAL LIMITED

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We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation regarding the Ongoing Connected Transactions. We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information and representations provided or opinions expressed in the Circular. In line with normal practice, we have not, however, conducted a verification of the information and representations provided to us by the Directors, nor have we conducted any independent in-depth investigation into the business and affairs and prospects of the Company and its subsidiaries. The Directors have confirmed that no material facts have been omitted from the information supplied to us.

### BACKGROUND OF THE ONGOING CONNECTED TRANSACTIONS

On 10 September 2003, the Board announced that the Company would enter into the Composite Services Agreement and the Supply Agreement with Top Group on 19 September 2003. Such agreements have been signed on 19 September 2003 accordingly. Pursuant to the Composite Services Agreement, Top Group will provide services to the Company such as supply of water and electricity, telecommunication services, vehicle leasing services and building maintenance services for the three years ending 31 December 2006. In accordance with the Supply Agreement, Top Group will purchase from the Company certain information technology products and services for the three years ending 31 December 2006.

Top Group is principally engaged in the sales and integration of electronic products, machines, communication equipments, computers and computer accessories. Top Development, the controlling shareholder of the Company, holds 62% interest in Top Group and thus Top Group is a connected person of the Company under the GEM Listing Rules. As such, the entering into the Composite Services Agreement and the Supply Agreement by the Company constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules and are subject to approvals by the Independent Shareholders at an extraordinary general meeting of the Company to be convened.

As disclosed in the Prospectus, Top Group (formerly known as “Sichuan Top Group Technology Development Company Limited”) began to provide similar composite services including supply of water and electricity, telecommunication services, vehicle leasing services and printing services to the Company in 1999. On 8 March 2001, the Company and Top Group entered into a composite services agreement to rationalize the arrangement regarding the provision of composite services and was granted a waiver from the Stock Exchange for exemption from strict compliance of Rule 20.35 of the GEM Listing Rules during the process of listing application on GEM. Such composite services agreement and relevant waiver will expire on 31 December 2003.



## PRINCIPAL FACTORS AND REASONS CONSIDERED

### I. REASONS FOR ENTERING INTO THE ONGOING CONNECTED TRANSACTIONS

The principal business of the Group includes provision of system solution services and other value added services such as technology consultancy, after-sales support, training services, and sales of information technology related products. The Company is also engaged in the research, development, production and distribution of information technology solutions of government administration systems.

#### **Composite Services Agreement**

Pursuant to the Composite Services Agreement, Top Group will provide services to the Company such as supply of water and electricity, telecommunication services, vehicle leasing services and building maintenance services.

The Directors consider that the Company would be beneficial by the entering into the Composite Services Agreement which have been operated in similar manner for a number of years with Top Group and it would also help minimize the Company's operation costs and administrative personnel and allow the Company to concentrate on business development activities. Top Group has vehicles with different classes and sizes for fitting different demands from itself and its associated companies. The Company informed us that using vehicles provided by Top Group is more convenient and flexible. The Company does not need to provide maintenance to these vehicles and need to pay when needed. In addition, the Directors believe that these services cannot be obtained with a lower cost from other independent third parties. As stated in the latest annual report of the Company, the independent non-executive Directors have reviewed those connected transactions during the relevant period and confirmed that those connected transactions are conducted in accordance with the terms of the existing composite service agreement and that they were of the view that the Group should continue such connected transactions. As such, we concur with the Directors' view that the Company will be beneficial to utilize the composite services provided by Top Group under the Composite Services Agreement.

#### **Supply Agreement**

Pursuant to the Supply Agreement, Top Group will purchase from the Company certain information technology products and services at a price not less than fair market value or an amount the Company would ordinarily charge to an unrelated third-party distributor, whichever is higher. In additional, the Company would have separately underlying agreement in respect of each supply transaction of information technology products and services to be placed by Top Group in order to determine the names of products or services, quantity, price, standard of quality of the provisions of products and services. The Directors are of the view that Top Group has a strong business connections and network in the field mainly in the private sector, this agreement allows the Company to sell its products and services to Top Group to stimulate the Company's turnover. According to The PRC Top 100 IT Enterprises website (中國電子信息百強企業網) at [www.ittop100.gov.cn](http://www.ittop100.gov.cn) as promulgated on 24 April 2003, Top Group

ranked 32nd in terms of turnover which is about RMB3.96 billion. In addition, the business of the Company focuses on the government-related entities in the PRC whereas the principal customers of Top Group are in the private sector so both Top Group and the Company will benefit from the synergy effect as a result of the Supply Agreement. The Directors consider that the Company will continue to pursue its strategy to focus on provision of information technology products and services to government-related entities and have no present intention to shift the Company's strategy. However, the Directors are of the view that certain Company's products and services can be used for the integration of Top Group's products and services in the private sector. Thus, the Supply Agreement will enable the Company to increase its total sales. In light of the above, we concur with Directors' view that the Supply Agreement would be in the interests of the Company and enable the Company to utilize Top Group's network to increase Company's revenue.

## **II. BASIS OF DETERMINING CONSIDERATION**

The basis of determination of the consideration for the Ongoing Connected Transactions is set out as follows:

### **Composite Services Agreement**

Pursuant to the Composite Services Agreement, the fees charged are with reference to the (1) nation-wide government prescribed price; (2) where there is no nation-wide government prescribed price, the prescribed price for Sichuan province or Chengdu City will apply; or (3) where neither (1) nor (2) is available, the price shall not exceed the reasonable cost plus 20 per cent margin.

The consideration for such transaction is mainly determined with reference to price prescribed by the government and only when prescribed price is not existed, the fees will not be exceeding the reasonable cost plus 20 per cent margin. Pursuant to the Composite Service Agreement, in the event that the Company obtains the services from other independent third parties in Chengdu City with better terms, the Company has the right to request Top Group to provide those services at the same terms offered by the independent third parties or to terminate the services with Top Group. We have reviewed the existing composite services agreement and the Composite Services Agreement and noted that such pricing mechanism is adopted in the existing composite services agreement between the two parties and have been in place for a number of years. The Directors also confirmed that the Company notes no exceptional matter in carrying out transactions under the existing composite services agreement since the date of signing of such agreement. As such, we concur with the Directors' view that the basis of determination of the consideration for the Composite Services Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

**Supply Agreement**

Under the Supply Agreement, Top Group can make purchase from the Company at a price not less than fair market value or an amount the Company ordinarily charge to an unrelated third-party distributor. As the consideration is determined with reference to terms provided to independent third parties, we concur with the Directors' view that the basis of determination of the consideration for the Supply Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

**III. BASES OF SETTING THE ANNUAL CAPS**

**Composite Services Agreement**

The Directors propose that the annual cap for the fees payable by the Company to Top Group shall be RMB2 million for each of the three financial years ending 31 December 2006. For each of the years ended 31 December 2000, 2001, 2002 and the first six months of 2003, the services fees paid by the Company to Top Group were approximately RMB1.863 million, RMB1.453 million, RMB0.83 million and RMB0.586 million respectively. The annual cap is calculated according to the maximum annual services fees (rounding the RMB million) for the last couple of years. Accordingly, we concur with the Directors' view that the proposed cap is fair and reasonable so far as the Independent Shareholders are concerned.

**Supply Agreement**

The Directors propose that the annual cap in respect of the Supply Agreement of the Company for each of the three financial years ending 31 December 2006 is RMB20 million per year. We have discussed with the Directors the basis for setting the cap and understand that the annual cap was indicated by Top Group to the Company as the estimated demand for each of the coming three years. According to The PRC Top 100 IT Enterprises website (中國電子信息百強企業網) at [www.ittop100.gov.cn](http://www.ittop100.gov.cn) as promulgated on 24 April 2003, Top Group ranked 32nd in terms of turnover and Top Group has also confirmed to the Company that its turnover recorded about RMB3.96 billion for year 2002. The proposed cap represents only a small portion of the annual turnover of Top Group. We also note that the Company acts on the request from Top Group in providing products and services in this area, so it is reasonable that the cap is set solely based on the estimated demand from Top Group. Furthermore, the Directors confirmed that the Group has sufficient production capacity to fulfill the expected increase in sales to Top Group and the cap is set to allow sufficient room for the expansion of the Group's business and to strengthen the business relationship with Top Group. Accordingly, we concur with the Directors' view that the proposed cap is fair and reasonable so far as the Independent Shareholders are concerned.

#### **IV. BENEFITS OF THE ONGOING CONNECTED TRANSACTIONS**

The Directors believe that the Company can obtain more favourable and reliable products and services from Top Group than from independent third parties by entering into the Composite Services Agreement while the Company can also stimulate its sales figure by selling its products and services to Top Group under the Supply Agreement.

The Directors also believe that the terms of the Ongoing Connected Transactions are made on the arm's length basis and on normal commercial terms which are no less favourable than terms available to or from independent third parties. The Directors also believe that the Composite Services Agreement and the Supply Agreement are made in the ordinary course of business of the Company and fair and reasonable and in the interest of the Company's shareholders as a whole. Based on the background and reasons of the Ongoing Connected Transactions, we concur with the Directors' view that these transactions are in line with the business of the Company and the entering into the Ongoing Connected Transactions are beneficial to the development of the Company.

#### **RECOMMENDATIONS**

Having taken into account, inter alia, the principal factors and reasons referred to above, we consider that the terms of the Composite Services Agreement and the Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and both agreements are and will continue to be entered into on an arm's length basis and in the ordinary course of business. We also consider that the caps are set in order to allow sufficient room for the expansion of the Group's business in the future, while at the same time ensure that the spirit of the GEM Listing Rules governing connected transactions is followed. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Composite Services Agreement and the Supply Agreement and the proposed caps for the Ongoing Connected Transactions at the EGM.

Yours faithfully,  
For and on behalf of  
**Tanrich Capital Limited**  
**Li Wai Kuen, Clara**  
*Director*

**1. RESPONSIBILITY STATEMENT**

This document, for which 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 for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this document is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this document misleading; and
- (c) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**2. DISCLOSURE OF INTERESTS****Directors, Supervisors and Chief Executives**

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors, chief executives and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

*Long positions in shares*

- (a) *The Company*

**Number of ordinary shares  
of RMB0.10 each in the Company**

Name of Directors	Personal interests	Family interests	Corporate interests	Total	Percentage of issued share capital
Mr. Li Zheng Bin	1,000,000 <sup>(1)</sup>	Nil	39,000,000 <sup>(1),(2)</sup>	40,000,000	5.92%
Mr. Huang Wei Bin	156,000 <sup>(1)</sup>	Nil	Nil	156,000	0.02%
Mr. Chen Zhong Hao	468,000 <sup>(1)</sup>	Nil	Nil	468,000	0.07%
<b>Name of Supervisors</b>					
Mr. Chen Bao Yu	28,000 <sup>(1)</sup>	Nil	Nil	28,000	0.00%
Mr. Wang Hua	22,000 <sup>(1)</sup>	Nil	Nil	22,000	0.00%
Mr. Hu Yun Xu	208,000 <sup>(1)</sup>	Nil	Nil	208,000	0.03%

*Notes:*

1. These shares are domestic shares of the Company.
2. These shares are held by Sichuan Top Sci-Tech Development Company (“Top Development”). Mr. Li Zheng Bin holds 1.58% interest in Top Development.

(b) *Associated Corporations*

**Equity interests in Chengdu Top Huaxi Information  
System Co., Ltd. (“Huaxi Information”)<sup>(1)</sup>**

Name of Directors	Personal interests	Family interests	Corporate interests	Percentage of equity interest in the registered share capital	
				Total	
Mr. Wang Zu Long	RMB200,000	—	—	RMB200,000	2.00%

*Note:*

1. The registered capital of Huaxi Information was RMB10,000,000, where the Company held 95% equity interest thereof.

**Equity interest in Chengdu Top Huaxi Electronics  
Technology Co., Ltd. (“Huaxi Electronics”)<sup>(1)</sup>**

Name of Directors	Personal interests	Family interests	Corporate interests	Percentage of equity interest in the registered share capital	
				Total	
Mr. Wang Zu Long	RMB200,000	—	—	RMB200,000	2.00%

*Note:*

1. The registered share capital of Huaxi Electronics was RMB10,000,000 where the Company held 95% equity interest thereof.

*Long positions in underlying shares and debentures*

None of Directors, Supervisors, chief executives and their respective associates had any long positions in the underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

*Short positions in shares, underlying shares and debentures*

None of Directors, Supervisors, chief executives and their respective associates had any short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors or Tanrich Capital Limited had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Company and its subsidiaries (the “Group”) since 31 December 2002 (the date to which the latest published audited consolidated accounts of the Company were made up) or proposed to be so acquired, disposed of or leased;
- (ii) there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group;
- (iii) Tanrich Capital Limited does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (iv) none of the Directors or Supervisors are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

**Substantial shareholders**

As at the Latest Practicable Date, the following persons (other than the Directors, Supervisors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO.

*Long positions in shares*

<b>Name of Shareholder</b>	<b>Number of Ordinary shares of RMB0.10 each</b>	<b>Percentage of issued share capital</b>
Top Development	344,500,000 <sup>(1),(2)</sup>	50.95%
Sichuan Topsoft Investment Company Limited (“Topsoft Investment”)	286,000,000 <sup>(1),(3)</sup>	42.30%
Labour Association of Top Development	344,500,000 <sup>(1),(4)</sup>	50.95%

*Notes:*

1. These shares are domestic shares of the Company.
2. Top Development holds 5.77% direct interest in the Company. Top Development owns 34.96% of Topsoft Investment, which owns 40.38% of the Company. Topsoft Investment owns 82% of Sichuan Top Computer Company Limited (“Top Computer”), which owns 1.92% of the Company. Top Development owns 80% of Chengdu Top Information Network Engineering Company Limited, which owns 1.92% of the Company. Top Development owns 60% of Chengdu Tuoan Sci-Tech Information Company Limited, which owns 0.96% of the Company.
3. Topsoft Investment owns 82% of Top Computer, which owns 1.92% of the Company. Topsoft Investment’s direct interest in the Company is 40.38%.
4. The Labour Association of Top Development owns 34.39% of Top Development. As to Top Development’s interest in the Company, please see note 2 above.

*Long positions in underlying shares*

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register to be kept under section 336 of the SFO.

*Short positions in shares and underlying shares*

No short positions of other persons and substantial shareholders in the shares and underlying shares of equity derivatives of the Company were recorded in the register to be kept under section 336 of the SFO.



### 3. SPONSOR'S INTERESTS

As at the Latest Practicable Date, neither CPY (the "Sponsor") nor its directors or employees or respective associates had any interests in the securities of the Company or any member of the Group, or rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

According to the sponsor's agreement entered into between the Company and the Sponsor on 23 March 2001, the Sponsor has received and will receive sponsorship fee as being the retained sponsor of the Company for the period from 30 March 2001 to 31 December 2003 or until the sponsor's agreement is terminated upon the terms and conditions set out therein.

### 4. LITIGATION

From time to time the Directors expect the Group to be subject to legal proceedings and claims in the ordinary course of business of the Company. Such legal proceedings or claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. The Directors are currently not aware of any legal proceedings or claims that the Directors believe will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition or results of operations.

### 5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2002, the date to which the latest audited financial statements of the Group were made up.

### 6. SERVICE CONTRACTS

Each of the Executive Directors and Supervisors has entered into a service contract with the Company on 8 March 2001 (except for the Executive Director, Mr. Wang Zu Long, whose service contract was entered into on 1 June 2003) for a term of three years, expiring on the date of the annual general meeting of that year.

### 7. EXPERT

The following is the qualification of the expert who has given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Tanrich Capital Limited	A deemed licensed corporation for types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO)

## 8. CONSENT

Tanrich Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

## 9. 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.

## 10. GENERAL

- (a) Mr. Liu Kam Lung (廖金龍先生), aged 39, is the Company Secretary and the Qualified Accountant of the Company.
- (b) Mr. Fan Jing Ru (范靜如先生), aged 39, is the Compliance Officer of the Company.
- (c) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited, Rooms 1901-1905, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

## 11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the offices of Herbert Smith, 23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong up to and including 10 October 2003:

- (a) the Composite Services Agreement;
- (b) the Supply Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 10 to 11 in this circular;
- (d) the letter from Tanrich Capital Limited, the text of which is set out on pages 12 to 17 of this circular;
- (e) the written consent of Tanrich Capital Limited referred to in paragraph 8 of this Appendix;

- (f) all the service agreements as referred to in this appendix headed “Service Contracts”;
- (g) the annual reports and accounts of the Company for the two years ended 31 December 2002;  
and
- (h) the articles of association of the Company.



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)*

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (“EGM”) of Chengdu Top Sci-Tech Company Limited (“the Company”) will be held at Xiruan, Top Road, Hong Guang Zhen, Pi County, Chengdu, the PRC on Friday, 14 November 2003 at 10:00 a.m. for the following purposes:-

As ordinary resolutions:

1. To consider and approve the terms of the Composite Services Agreement (as defined in the announcement made by the Company dated 10 September 2003) entered into by the Company and Top Group Technology Development Company Limited on 19 September 2003 and the transactions contemplated therein. *(Note 1)*
2. To consider and approve the terms of the Supply Agreement (as defined in the announcement made by the Company dated 10 September 2003) entered into by the Company and Top Group Technology Development Company Limited on 19 September 2003 and the transactions contemplated therein. *(Note 1)*

By Order of the Board  
**Li Zheng Bin**  
*Chairman*

Chengdu, the PRC, 24 September 2003

\* For identification purpose only

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# NOTICE OF EXTRAORDINARY GENERAL MEETING

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## Notes:

### 1. Resolutions in which connected persons shall abstain from voting

The connected persons of this transaction (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) shall abstain from voting in relation to this resolution.

### 2. Eligibility for attending the EGM

Holders of H Shares of the Company whose names appear on the register of members maintained by Hong Kong Registrars Limited at the close of business on 15 October 2003 and holders of Domestic Shares of the Company whose names appear on the Domestic Shares register maintained by the Company at the close of business on 15 October 2003 are eligible to attend the EGM.

### 3. Proxy

- (i) A member eligible to attend and vote at the EGM is entitled to appoint, in written form, one or more proxies to attend and vote on its behalf. A proxy need not be a shareholder.
- (ii) A proxy should be appointed by a written instrument signed by the appointor or its attorney duly authorised in writing. If the form of proxy is signed by the attorney of the appointor, the power of attorney authorising that attorney to sign, or other authorisation document(s) must be notarised.
- (iii) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed form of proxy must be delivered, in the case of holders of Domestic Shares, to the Company and, in the case of holders of H Shares, to Hong Kong Registrars Limited, not less than 24 hours before the time designated for convening the EGM.

### 4. Registration procedures for attending the EGM

- (i) A shareholder or his proxy shall produce proof of identity when attending the EGM. If a shareholder is a legal person, its legal representative or other persons authorised by the board of directors or other governing body of such shareholder may attend the EGM by producing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such persons to attend the meeting.
- (ii) Holders of H Shares and Domestic Shares intending to attend the EGM should return the reply slip for attending the EGM to the Company on or before 24 October 2003.
- (iii) Shareholders may send the reply slip to the Company in person, by post or by fax.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### 5. Closure of Register of Members

The register of members of the Company will be closed from 15 October 2003 to 13 November 2003 (both days inclusive).

### 6. Other Business

- (i) The EGM will not last for more than one day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.
- (ii) The address of the Share Registrar for the H Shares of the Company, Hong Kong Registrars Limited is at:

Rooms 1901-1905,  
19/F, Hopewell Centre,  
183 Queen's Road East,  
Wan Chai,  
Hong Kong

- (iii) The registered address of the Company is at:

Tu Qiao Industrial Development Zone  
Jin Niu District  
Chengdu  
The People's Republic of China  
Telephone No.: (+86) 28-8282 0038  
Facsimile No.: (+86) 28-8282 0039