



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 2003**

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 2003, the Company and its subsidiaries (the "Group") recorded a turnover of approximately RMB33,673,000 (2002: approximately RMB133,263,000), representing a decrease of 74.7% as compared to the same period of 2002.
- The audited loss attributable to shareholders was approximately RMB9,789,000.
- Loss per share was approximately RMB0.0145.

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 accessory information technology products to customers.

The software systems developed by the Group are module-based, which allow them to be more easily customized 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 2003:

Major Area	Major Business Objective	Actual Business Progress
<i>IT Solution Development</i>		
Government administration framework software basing on multi-layer system	Integration of the government administration framework software, and application in taxation, housing reforms, telecommunication and new industries; Explore application of the government administration framework software in other new industries	The integration of government administration framework software and application in taxation, housing reforms and telecommunication were implemented. Application was also made to social insurance in accordance with market demand.
Biometric finger print identifying system	Compiling of documentary file on and trial production of information dissemination security system, formation of capacity for mass production	As the customer demand on the biometric finger print identifying system does not meet the Company's expectation, the Company has suspended the production and testing of biometric finger print identifying system's products. Such development will be re-considered when the customer demand is up to a level indicating that such products are able to reach break-even point.

Major Area		Major Business Objective	Actual Business Progress
Embedded system	operating	Small scale trial production of embedded electronic display system, compiling of documentary files on production technology; batch production of embedded electronic display system, setting of documentary files on production technology	Small-scale trial production of embedded electronic display system, compiling of documentary files on production technology, batch production of embedded electronic display system, and setting of documentary files on production technology were basically completed. The Company continues to keep a close eye on the market trend so as to ensure its products adhering to market demand.

IT Solution Reproduction

Government administration framework software basing on multi-layer system	Overall production of government administration framework software for application in taxation, housing reform and telecommunication; Start trial production of government administration framework software for application in other newly explored industry	The government administration framework software has been applied in taxation, housing reforms, telecommunication and social insurance in accordance with market demand.
---	---	--

Major Area	Major Business Objective	Actual Business Progress
Biometric finger print identifying system	Overall production of finger print documentary security management system, finger print browser program, security reader program, trial production of secured e-mail and fax software system basing on finger print identification, remote display secured release software basing on finger print identification; Overall production of secured e-mail and fax software system basing on finger print identification, remote display secured release software basing on finger print identification	As the market demand on the biometric finger print identifying system was below the expectation, the Company has suspended the production of biometric finger print identifying system's products. Such development will be re-considered when the customer demand is up to a level indicating that such products are able to reach break-even point.
Embedded operating system	Trial production of embedded operating system; Overall production of embedded operating system	Trial production of embedded operating system and overall production of embedded operating system were basically completed. The Company continues to keep a close eye on the market trend so as to ensure its products adhering to the market demand.

Major Area	Major Business Objective	Actual Business Progress
<i>Marketing Activities</i>		
Marketing activities	<p>Development of market sales, technological services support network in Northeast region as priority, set up sales offices or representative offices in Shenyang and Harbin; Setting up a more comprehensive sales network in the PRC, upgrade localization of service and re-development and radiation ties of the sales service offices with the peripheral areas</p>	<p>As the business development in Northeast region is slower than expected, the set up of sales offices or representative offices in Shenyang and Harbin are deferred in order to reduce cost. The Company established a subsidiary in Xian, namely Shaanxi Top Sci-Tech Company Limited. The sales network and technological services support network in the Northwest region were accordingly developed with its centre in Xian. On the other hand, the Group underwent a scheme of replenishment and consolidation of sales and service centers for all regions so as to concentrate resources, to strengthen management and to enhance efficiency.</p>

Major Area	Major Business Objective	Actual Business Progress
	<p>Set up information technological centre in USA; and complete construction of basic facilities for the technology and information centre in the USA (including office space, site construction development, software and hardware development environment construction, office equipment and operation expenses in the initial stage)</p>	<p>Due to the market becoming more open after the PRC's accession to the World Trade Organization, and the advancement of communication technology enhancing the timely sharing of information technology in the mainland, together with the business development of the Group behind scheduled, the establishment of information technological centre in USA is postponed.</p>
	<p>In depth training for technical, production and promotion staff; in depth overseas training for staff of outstanding performance</p>	<p>The Group provided in-depth training for its 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 cost control.</p>

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

Promote brand image of TOP and the products through Hong Kong media; exhibition in the Guangzhou Spring Commodity Fair and Guangzhou Autumn Commodity Fair

The Company participated in the 4th West China International Expo held in Chengdu. Participation in the Guangzhou Autumn Commodity Fair was not made due to the forecast of marketing ineffectiveness.

Nevertheless, the proposed promotion of the brand image of TOP and its products through Hong Kong media aims at internationalizing the TOP brand name in line with the establishment of the information technological centre in USA. As the establishment of such centre is postponed, the promotion activities on TOP brand image and products through Hong Kong media were 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, telecommunications, transportation, taxation, banking, social insurance and labour markets of the country's 31 provinces and cities. The turnover of the Group in 2003 was approximately RMB33,673,000, a decrease of 74.7%, compared with 2002. This was mainly due to the severe competition of the IT market in the mainland, causing a decline in the total value of the orders received, and the outbreak of the Severe Acute Respiratory Syndrome in the second quarter. The substantial drop in turnover caused the gross profit in a loss. With the Group's effort on inputting resources to increase the market promotion for all kinds of products and services, prices of products were complementarily adjusted. The gross profit margin, stated before the amortization of intangible assets, was resulted in a decrease of 9.5% as compared with last year.

At 30 September 2003, the Group disposed of its subsidiary, Shanghai Top Sci-Tech Company Limited Limited, at a consideration of RMB22,100,000. The disposal of such subsidiary was made mainly in line with the adjustments on marketing strategies. The administrative expenses for the year were reduced by 60.9% as compared with last year. The main reason was that provision for doubtful debts was charged by approximately RMB2,583,000 for the year, which was charged by approximately RMB15,058,000 for last year, having a decrease by RMB12,475,000. Both interest income and finance costs were dropped as the Group repaid an unsecured bank loan of RMB30,000,000 in August 2002.

In addition to the drop in subsidy income, the Group was resulted in a loss attributable to shareholders of approximately RMB9,789,000 and a loss per share of RMB0.0145. The subsidy income was dropped as the Group received no financial refund and the sales of certain approved software products, which the Group is entitled to have tax refund, were reduced. Despite the results recorded a loss, the Group's overall costs were effectively controlled and contracted with the adoption to implement strict cost control measures. Moreover, the Group's net cash inflow from operating activities increased from approximately RMB16,186,000 in last year to approximately RMB20,380,000 in this year, representing a growth of 25.9%.

Business Environment

The PRC's economy continued to grow in 2003, with its GDP growth at 9.1%, which brought about continuous increase of market demand. As published in 賽迪網, the total sales in the PRC's software market in 2003 was RMB39.96 billion with the sales revenue of RMB34.5 billion in 2002, representing a growth of 15.8%. 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 2004 and 2008 would continue to sustain a growth of 19.5%. The sales in the software market of the PRC is forecasted to be increased from RMB39.96 billion in 2003 to RMB97.57 billion in 2008.

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.

Market and Products

The Group underwent a scheme of replenishment and consolidation of sales and service centers for all regions so as to concentrate resources, to strengthen management and to enhance efficiency. Nevertheless, the Group is also actively conducting marketing activities. Establishment of new sales offices in the mainland and expansion of its sales and service centers for the purposes of promoting the Group's products and providing value added services are continued so as to enlarge the level of connection with and bases of customers and also maintain a close relationship with customers. The Group also provided training for its staff in order to strengthen their technical, production and promotion skills. Moreover, the Group participated in market promotion of the products and exhibitions. Not only can this help the Group to widen its sales channels, but also facilitates to promote the Group's image.

During the year, the Company invested RMB4,800,000 to establish a subsidiary in Xian, namely Shaanxi Top Sci-Tech Company Limited. The market sales and technological services support network in the Northwest region were accordingly developed with its centre in Xian. Besides, the Group disposed of its subsidiary, Shanghai Top Sci-Tech Company Limited, and underwent the replenishment and consolidation of the market sales, technological services support network in the East China and North China regions. As the business development in the Southwest region was slower than expected, the sales and service centre in Lhasa was closed upon the expiration of tenancy agreement in order to save cost.

Due to the market more open after the PRC's accession into the World Trade Organization, and the advancement of communication technology enhancing the timely sharing of information technology in the mainland, as well as the business development of the Group behind scheduled, the establishment of information technological centre in USA is postponed.

With the foundation on the major products of "TS'98 Tax Management Information System", "TPHMIS Housing Reform Management Information System", "LED Display Control System", "Government Administration System", "Biometric Finger Print Identifying System" and "Embedded Operating System", the Group had successfully launched "CentS Tax Management Information System". The system operates by computers through internet network, which provides a platform for all levels of tax bureaus in the mainland in relation to tax data collection, storage, processing and flow as well as exchanges of information with other organization and taxpayers.

Based on the multi-layer system integral framework structure for government administration, the Group had also developed and launched "Top Social Insurance Application Series Software" which are to be used by all levels of labour and social security departments in the mainland for management of information electronically in the areas of medical insurance, pension scheme insurance, unemployment insurance, workers compensation insurance and birth insurance. We believe that the continuous improvement in and innovation of application software products and services for the purposes of meeting the market demand help the Group to 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 for Government Administration", "information Security Technology" and "Embedded Operating System". The Group's research and development teams will focus on the component software modules in order to meet customers' need and expectation.

Human Resources and Remuneration Policy

As at 31 December 2003, the Group employed approximately 179 staff. For the year ended 31 December 2003, the total amount of remuneration paid by the Group to its staff was approximately RMB4,632,000 (2002: approximately RMB5,609,000).

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 minimizing the cost.

Employees are remunerated according to their performance and working experience. In addition to basic salaries and participation in the social insurance schemes (including pension scheme), staff benefits include medical scheme and professional trainings etc.

Financial Analysis

The Group has adopted a proactive and stable financial policy with a stringent control of investment risk in order to optimize 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 2003, compared with that of 2002:

	2003		2002	
	Total RMB'000	Percentage %	Total RMB'000	Percentage %
Shareholders' equity	308,406	97.9%	318,195	95.2%
Minority interest	1,200	0.4%	10,385	3.1%
Deferred tax liabilities	5,544	1.7%	5,670	1.7%
Total	<u>315,150</u>	<u>100.0%</u>	<u>334,250</u>	<u>100.0%</u>

Ability to Debt Repayment and Debt Ratio

As at 31 December 2003, the Group had no borrowings.

The debt ratio (defined as total liabilities excluding minority interests over total assets) of the Group as at 31 December 2003 was 13.8%. The debt ratios of the Group in last two years were as follows:

	2003	2002
Debt ratio	13.8%	10.3%

Liquid Capital and Financial Resources

As at 31 December 2003, the Group had net current assets of approximately RMB174,454,000, including bank balances and cash of approximately RMB176,152,000. The cash position of the Group remains sound and healthy.

The Directors believe that the Group has sufficient financial resources to repay the debts and to meet the needs of undertakings and operating capital.

Capital Expenditure Commitment

As at 31 December 2003, the Group did not have any significant commitment on capital expenditure.

Charged Assets

As at 31 December 2003, the Group did not have any of its assets charged.

Significant Investments

During the year, the Company invested RMB4,800,000 to establish a subsidiary, namely Shaanxi Top Sci-Tech Company Limited, and holds 96% 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

As at 30 September 2003, the Group disposed of its subsidiary, Shanghai Top Sci-Tech Company Limited, at a consideration of RMB22,100,000, details of which are set out in note 25(d) of the financial statements.

In the year under review, the Group did not have any material acquisition.

Future Plans for Material Investment/Capital Assets

As at 31 December 2003, the Group had no future plans for material investments or capital assets.

Foreign Exchange Risk

The Group mainly earns revenue and incurs costs in Renminbi and Hong Kong dollars. The Directors consider that the impact of foreign exchange exposure of the Group is minimal. As at 31 December 2003, no related hedges were made by the Group.

Contingent Liabilities

As at 31 December 2003, the Group did not have any material contingent liabilities.

Prospects For 2004

For 2004, we anticipate that the competition is still keen and it will be a year of difficulties and care development for the Group. The Group will continue to intensify R&D, to provide client-oriented application software and value added services, to perfect sales network and to satisfy the customers' needs by due care implementation of every project, for the purpose of achieving a stable business growth.

The market sales and services network in all regions are continuously improved to enable our provision of quality services to customers, exploration of new market and widening of sales channels.

In satisfying the customers' needs, the Group will be actively conducting R&D, applying new technology, and launching new products so as to enhance the products competitiveness. The Group will also reinforce the internal control and management as well as the stringent control measures over costs and expenses in order to achieve a stable business growth.

As at 31 December 2003, the Group had incomplete contracts with aggregate amount of approximately RMB19 million.

According to the forecast of 賽迪資訊顧問有限公司, the sales in the software market of the PRC in the year of 2004 would continue to sustain a growth of 19.5%. In a growing IT market environment and with a sound and healthy cash position, we are of great confidence in the future business development of the Group.

In addition, the Group will make every effort to seize each opportunity to explore investments opportunities in other technological areas so as to achieve the aim of optimizing the shareholders' interests.

Segmental Information

The Group conducts its business within one business segment of providing IT solutions system. Besides, all of the Group's turnover, assets and liabilities were derived from the PRC, hence, neither business nor geographical analysis on segmental information were presented.

Results and Dividends

The Group's results for the year ended 31 December 2003 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 2003.

Major Customers and Suppliers

In the year under review, the Group's five largest customers accounted for 47.3% of the total sales for the year and sales to the largest customer included therein amounted to 13.7%.

Purchases from the Group's five largest suppliers, including Top Group Sci-Tech Development Company Limited ("Top Group"), accounted for 49.6% of the total purchases for the year and purchases from the largest supplier, Top Group, included therein amounted to 32.1%.

Top Group is a company, in which Sichuan Top Sci-Tech Development Company ("Top Development") owns 62% interest. And Top Development is the ultimate holding company of the Company.

To the best knowledge of the Directors, save as disclosed above, neither the Directors, 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.

Fixed Assets

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

Subsidiaries

Details of the subsidiaries of the Company are set out in note 15 to the financial statements.

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

Distributable Reserves

Details of the distributable reserves of the Company as at 31 December 2003 are set out in note 23 to the financial statements.

Share Capital

Details of movements in the share capital of the Company, together with reasons therefore, are set out in note 22 to the financial statements.

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 2003, such fund was applied as follows:

- Approximately HK\$39,200,000 (estimated amount as stated in the Prospectus: approximately HK\$50,000,000) were used in IT solution development, R&D of new technologies and products, small scale of product testing and test production. The under utilization is attributed to the Group's deferral of setting up technology and information centre in the USA and the suspension of the production and testing of biometric finger print identifying system's products;
- Approximately HK\$2,000,000 (estimated amount as stated in the Prospectus: approximately HK\$5,000,000) were used in the establishment of IT solution reproduction. The under utilization is attributed to the suspension of the reproduction development of biometric finger print identifying system's products;
- Approximately HK\$14,600,000 (estimated amount as stated in the Prospectus: approximately HK\$35,000,000) were used to promote the Company's new products through marketing activities (advertisement, exhibitions and other marketing and promotional activities). The under utilization is attributed to the Group's decision to defer the promotion of brand image of TOP and products through Hong Kong media;

- Approximately HK\$3,000,000 (estimated amount as stated in the Prospectus: HK\$5,000,000) were used to establish branch and representative office to promote the Company's products. The under utilization is attributed to the Group's policy adjustment to defer the setting up of sales offices and representative offices in certain region being slower than expected as a result of the slowdown economic development in such regions.

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 centers. However, due to the market more open after the PRC's accession into the World Trade Organization, and the advancement of communication technology enhancing the timely sharing of information technology in the mainland, as well as the business development of the Group behind scheduled, the establishment of information technological centre in USA is postponed. No fund was applied by the Company in relation thereto in the year.

Up to 31 December 2003, the Company has used approximately HK\$58,800,000, being 55.5% of the net proceeds from the issue of H Shares. The remaining approximately HK\$47,200,000 are deposited at the banks in the PRC in terms of Hong Kong dollars or Renminbi and will be used to implement the Company's remaining business objectives.

Emoluments of Directors and Supervisors

Details of the emoluments of Directors and Supervisors of the Company are set out in note 12(a) to the financial statements.

Five Highest Paid Staff

Details of the five highest paid staff in the Group are set out in note 12(b) to the financial statements.

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 for Mr. Wang Zu Long, Professor Wang Ming Dong and Ms. Xiao Bin, whose service contracts were entered into on 1 June 2003) 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 ("Topsoft Investment"). Top Development is the shareholder of Topsoft Investment and had 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
Sichuan Top Computer Company Limited ("Top Computer") ⁽¹⁾	Purchase of contract materials	4
Topsoft Investment	Purchase of contract materials	171
Top Group Sci-Tech Development Company Limited ("Top Group")	Sale of goods	800
	Purchase of contract materials	5,589
	Property leasing income	1,229
	Property leasing expenses	200
	Composite services expenses	887
Xian Top Software Company Limited ("Xian Top") ⁽¹⁾	Sale of goods	52

Note:

1. Topsoft Investment holds direct or indirect interests in 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 Computer	Purchase of contract materials	4
Topsoft Investment	Purchase of contract materials	171
Xian Top	Sale of goods	52

Disclosure of the Directors', Supervisors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 31 December 2003, 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

Name of Directors	Number of shares of RMB0.10 each in the Company				Percentage of issued share capital
	Personal interests	Family interests	Corporate Interests	Total	
Mr. Li Zheng Bin	1,000,000 ⁽¹⁾	Nil	39,000,000 ^{(1),(2)}	40,000,000	5.92%
Mr. Huang Wei Bin	156,000 ⁽¹⁾	Nil	Nil	156,000	0.02%
Mr. Chen Zhong Hao	468,000 ⁽¹⁾	Nil	Nil	468,000	0.07%

Name of Supervisors

Mr. Chen Bao Yu	28,000 ⁽¹⁾	Nil	Nil	28,000	0.00%
Mr. Wang Hua	22,000 ⁽¹⁾	Nil	Nil	22,000	0.00%
Mr. Hu Yun Xu	208,000 ⁽¹⁾	Nil	Nil	208,000	0.03%

Notes:

1. These shares are domestic shares of the Company.
2. These shares are held by Top Development, Mr. Li Zheng Bin holds 1.58% interest in Top Development.

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.

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 for any types of securities of the Company. As at 31 December 2003, none of the Directors, Supervisors or chief executives or any of their spouses or children under 18 years of age held any options to subscribe any types of the Company's securities.

Share Option Scheme

Up to 31 December 2003, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2001 ("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 or 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 SCRS 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 (ii) 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 issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes; and (ii) any pro rata entitlements.

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 of 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 to the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

Interests Discloseable under the SFO and Substantial Shareholders

So far as is notified to the Directors of the Company, as at 31 December 2003, shareholders (other than Directors, Supervisors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long positions

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. 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% interest of the Company. Topsoft Investment owns 82% interest of Top Computer, which owns 1.92% interest of the Company. Top Development owns 80% interest of Chengdu Top Information Network Engineering Company Limited, which owns 1.92% interest of the Company. Top Development owns 60% interest of Chengdu Tuoan Sci-Tech Information Company Limited, which owns 0.96% interest of the Company.

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

Save as disclosed above, as at 31 December 2003, the Directors of the Company were not aware of any other person (other than Directors, Supervisors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

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.

Connected Transactions

Details of the transactions between the Group and its connected persons are set out in note 26 to the financial statements.

The independent non-executive Directors have reviewed the connected transactions as disclosed in the Prospectus and confirmed that during the period from 1 January 2003 to 31 December 2003, such transactions are:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms (to the extent 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 Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

The independent non-executive Directors were of the view that the Group should continue such connected transactions.

PricewaterhouseCoopers, Certified Public Accountants, the Company's auditors, have reviewed such transactions and confirmed that the independent non-executive Directors of the Company have approved such transactions and that during the period from 1 January 2003 to 31 December 2003, such transactions were conducted in accordance with the terms of the relevant agreements.

Competing Interests

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

Sponsor's Interest

As at 31 December 2003, neither Core Pacific-Yamaichi Capital Limited (the "Sponsor") nor its directors or employees or respective associates had any interests in the securities of the Company or any member of the Group, or rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

According to the sponsor's agreement entered into between the Company and the Sponsor on 23 March 2001, the Sponsor has received and will receive sponsorship fee as being the retained sponsor of the Company for the period from 30 March 2001 to 31 December 2003. Following the expiry of the sponsor's agreement entered between the Sponsor and the Company, the Sponsor has ceased to act as the Company's continuing sponsor with effect from 1 January 2004.

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 Mr. Li Ming Shu resigned on 25 February 2004, the audit committee comprises four members, namely three independent non-executive Directors, Professor Yang Ji Ke, Professor Wang Ming Dong and Ms. Xiao Bin, and one executive Director, Mr. Fan Jing Ru.

The audit committee held four meetings in 2003. At the first meeting, the financial report for the year ended 31 December 2002 was reviewed. At the second meeting, the first quarterly financial report was reviewed. At the third meeting, the interim financial report was reviewed. The third quarterly financial report was reviewed at the fourth meeting.

The audit committee has reviewed the Group's financial report for the year ended 31 December 2003 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

Chengdu, the PRC

19 March 2004

AUDITORS' REPORT

We have audited the accounts on pages 27 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
19 March 2004

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2003 (All amounts are stated in Renminbi Yuan ("RMB"))

		2003	As restated
	Note	RMB'000	2002 RMB'000
Turnover	3, 26	33,673	133,263
Cost of sales	26	(24,718)	(94,108)
Amortisation of intangible assets	13	(13,021)	(14,444)
Gross (loss) profit		(4,066)	24,711
Other revenue	3, 26	3,515	4,521
Distribution costs		(4,132)	(6,523)
Administrative expenses	26	(8,672)	(22,197)
Other operating expenses		(715)	(1,231)
Gain on disposal of subsidiary	25(d)	2,046	—
Operating loss	4	(12,024)	(719)
Finance costs	6	—	(1,428)
Subsidy income	5	971	8,326
(Loss) profit before taxation		(11,053)	6,179
Taxation	7(a)	474	51
(Loss) profit after taxation		(10,579)	6,230
Minority interests		790	(318)
(Loss) profit attributable to shareholders	8	(9,789)	5,912
Basic (loss) earnings per share	10	RMB(0.0145)	RMB0.0087

Consolidated Balance Sheet

AS AT 31 DECEMBER 2003 (All amounts are stated in Renminbi Yuan ("RMB"))

		2003	As restated 2002
	Note	RMB'000	RMB'000
Non current assets			
Intangible assets, net	13	41,374	54,395
Fixed assets, net	14	81,706	83,981
Investment securities	16	9,050	9,050
Deferred tax assets	24(a)	8,566	7,430
		<u>140,696</u>	<u>154,856</u>
Current assets			
Inventories, net	17	15,373	9,493
Trade and other receivables, net	18	24,930	64,795
Due from related parties	26	2,231	3,435
Bank balances and cash		176,152	133,636
		<u>218,686</u>	<u>211,359</u>
Current liabilities			
Trade payables	19	11,722	11,184
Other payables and accruals		23,405	12,382
Taxation payable		648	7,127
Warranty provisions	20	110	143
Due to related parties	26	8,347	1,129
		<u>44,232</u>	<u>31,965</u>
Net current assets		<u>174,454</u>	<u>179,394</u>
Total assets less current liabilities		<u>315,150</u>	<u>334,250</u>
Financed by:			
Share capital	22	67,600	67,600
Reserves	23	169,979	170,080
Retained earnings	23	70,827	80,515
Shareholders' funds		<u>308,406</u>	<u>318,195</u>
Minority interests		<u>1,200</u>	<u>10,385</u>
Deferred tax liabilities	24(a)	5,544	5,670
		<u>315,150</u>	<u>334,250</u>

Approved by the Board of Directors on 19 March 2004 and signed on behalf of the Board by:

LI ZHENG BIN
Chairman

FAN JING RU
Director

Balance Sheet

AS AT 31 DECEMBER 2003 (All amounts are stated in Renminbi Yuan ("RMB"))

		2003	As restated
	Note	RMB'000	2002
			RMB'000
Non current assets			
Intangible assets, net	13	41,374	54,395
Fixed assets, net	14	81,479	83,883
Investments in subsidiaries	15	23,800	40,000
Investment securities	16	9,050	9,050
Deferred tax assets	24(b)	7,718	7,430
		<u>163,421</u>	<u>194,758</u>
Current assets			
Inventories, net	17	7,136	2,537
Trade and other receivables, net	18	12,244	46,507
Due from related parties	26	1,058	2,931
Bank balances and cash		167,362	100,282
		<u>187,800</u>	<u>152,257</u>
Current liabilities			
Trade payables	19	6,233	3,764
Other payables and accruals		15,422	8,400
Taxation payable		119	6,262
Warranty provisions	20	93	115
Due to related parties	26	15,496	6,623
		<u>37,363</u>	<u>25,164</u>
Net current assets		<u>150,437</u>	<u>127,093</u>
Total assets less current liabilities		<u>313,858</u>	<u>321,851</u>
Financed by:			
Share capital	22	67,600	67,600
Reserves	23	169,706	169,706
Retained earnings	23	71,008	78,875
Shareholders' funds		<u>308,314</u>	<u>316,181</u>
Deferred tax liabilities	24(b)	5,544	5,670
		<u>313,858</u>	<u>321,851</u>

Approved by the Board of Directors on 19 March 2004 and signed on behalf of the Board by:

LI ZHENG BIN
Chairman

FAN JING RU
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2003 (All amounts are stated in Renminbi Yuan ("RMB"))

	<i>Note</i>	2003 RMB'000	2002 RMB'000
Total equity as at 1 January, as previously reported		316,435	326,789
Effect of changes in accounting policy	23	1,760	(986)
Total equity as at 1 January, as restated		318,195	325,803
Net (loss) profit for the year	23	(9,789)	5,912
Dividends	23	—	(13,520)
Total equity as at 31 December		308,406	318,195

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2003 (All amounts are stated in Renminbi Yuan ("RMB"))

		2003	2002
	Note	RMB'000	RMB'000
Net cash inflow from operations	25(a)	21,483	20,601
Interest paid		—	(1,428)
Income tax paid		(1,103)	(2,987)
Net cash inflow from operating activities		<u>20,380</u>	<u>16,186</u>
Investing activities			
Purchase of fixed assets		(375)	(1,846)
Sale of fixed assets		21	—
Sale of subsidiary, net of cash disposed	25(d)	21,575	—
Interest received		715	1,995
Net cash inflow from investing activities		<u>21,936</u>	<u>149</u>
Net cash inflow before financing		<u>42,316</u>	<u>16,335</u>
Financing activities	25(b)		
Repayment of amounts borrowed		—	(30,000)
Dividends paid		—	(13,520)
Capital injection by minority shareholders		200	9,000
Net cash inflow (outflow) from financing		<u>200</u>	<u>(34,520)</u>
Increase (decrease) in cash and cash equivalents		42,516	(18,185)
Cash and cash equivalents at 1 January		133,636	151,821
Cash and cash equivalents at 31 December	25(c)	<u>176,152</u>	<u>133,636</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2003 (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 2003 was approximately 179 (2002: approximately 234).

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 accounts are set out below:

(a) *Basis of preparation*

The accounts 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 SSAP 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

2 Basis of preparation and principal accounting policies *(continued)*

The adoption of SSAP 35 "Government Grants and Disclosure of Government Assistance" has not had a material financial impact on the accounts, as the Group was already following the recognition and measurement principles contained therein.

The changes to the Group's accounting policies and the effect of adopting the new SSAP 12 "Income Taxes" are set out in Note 2(n).

(b) *Consolidation*

The consolidated accounts include the accounts 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.

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.

2 Basis of preparation and principal accounting policies (continued)

(c) Translation of foreign currencies

Transactions in foreign currencies are translated 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 patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Patents, trademarks and licenses 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 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 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 carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

2 Basis of preparation and principal accounting policies (continued)

(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%

2 Basis of preparation and principal accounting policies *(continued)*

(e) *Fixed assets (continued)*

(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, other properties 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 other than investment properties and properties under construction 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) *Government grants*

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

The adoption of SSAP 35 has not had a material financial impact on the accounts, as the Group was already following the recognition and measurement principles contained therein.

(g) *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.

2 Basis of preparation and principal accounting policies (*continued*)

(h) *Investments in securities*

Investment in 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.

(i) *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.

(j) *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.

(k) *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.

2 Basis of preparation and principal accounting policies (*continued*)

(l) *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.

(m) *Employment benefits*

The Group's contribution to defined contribution pension scheme for the benefit of its employees are expensed as incurred.

(n) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

2 Basis of preparation and principal accounting policies *(continued)*

(n) *Deferred taxation (continued)*

As detailed in Note 23 to the accounts, opening retained earnings of the Group and the Company at 1 January 2002 and 2003 have been increased by approximately RMB4,937,000 and RMB7,683,000, respectively, and revaluation surplus of the Group and the Company at 1 January 2002 and 2003 have been decreased by approximately RMB5,923,000. This change has resulted in an increase in deferred tax assets and deferred tax liabilities of the Group and the Company at 31 December 2002 by approximately RMB7,430,000 and RMB5,670,000, respectively. The profit of the Group and the Company for the year ended 31 December 2002 has been increased by approximately RMB2,746,000.

(o) *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 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 accounts. 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 accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 Basis of preparation and principal accounting policies *(continued)*

(p) *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.

(q) *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.

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:

	2003 RMB'000	2002 RMB'000
Turnover		
Sales of software and information systems	32,042	67,134
Sales of information technology related products	1,631	66,129
	<u>33,673</u>	<u>133,263</u>
Other revenue		
Rental income	1,500	1,520
Interest income	1,613	1,995
Others	402	1,006
	<u>3,515</u>	<u>4,521</u>
Total revenues	<u><u>37,188</u></u>	<u><u>137,784</u></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 2003. 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

Operating loss is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Charging		
Depreciation of fixed assets (<i>Note 14</i>)	2,624	3,162
Staff costs (including directors' and supervisors' emoluments) (<i>Note 11</i>)		
— Salaries, bonuses and wages	4,301	5,183
— Staff welfare fund	168	426
— Contribution to social security	163	—
Provision for inventory obsolescence	—	1,547
Provision for doubtful debts	2,583	15,058
Operating leases	257	643
Auditors' remuneration	850	850
Provision for warranty (<i>Note 20</i>)	226	—
Amortisation of intangible assets (<i>Note 13</i>)	13,021	14,444
	<u> </u>	<u> </u>
Crediting		
Rental income	1,500	1,520
Interest income from bank deposits	1,613	1,995
Write-back of provision for inventory obsolescence	1,359	—
Write-back of provision for warranty (<i>Note 20</i>)	—	245
	<u> </u>	<u> </u>

5 Subsidy income

	2003 RMB'000	2002 RMB'000
Financial refund (a)	—	2,172
Tax refund (b)	971	6,154
	<u>971</u>	<u>8,326</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

	2003 RMB'000	2002 RMB'000
Interest on bank loans	—	1,428

7 Taxation

(a) Enterprise income taxes (“EIT”)

In accordance with the relevant tax regulation, 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%. 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:

	2003 RMB'000	As restated 2002 RMB'000
Current taxation		
— Provision for current EIT	788	3,417
— Reversal of over-provision for EIT in prior periods	—	(722)
Deferred taxation	(1,262)	(2,746)
	<u>(474)</u>	<u>(51)</u>

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

	2003 RMB'000	2002 RMB'000
(Loss) profit before taxation	<u>(11,053)</u>	<u>6,179</u>
Calculated at taxation rate of 15% (2002: 15%)	(1,658)	927
Effect of different taxation rates in subsidiaries	115	42
Income not subject to taxation	(146)	(923)
Expenses not deductible for taxation purposes	1,215	625
Reversal of over-provision for EIT in prior periods	—	(722)
Taxation benefit	<u>(474)</u>	<u>(51)</u>

7 Taxation (continued)

(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 (Loss) profit attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of approximately RMB7,867,000 (2002: profit as restated RMB5,171,000).

9 Dividends

The directors do not recommend the payment of any interim or final dividend for 2003 (2002: nil).

10 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately RMB9,789,000 (2002: profit as restated RMB5,912,000) and the weighted average number of 676,000,000 ordinary shares (2002: 676,000,000) in issue during the year.

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

11 Staff costs

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

	2003 RMB'000	2002 RMB'000
Salaries, bonuses and wages	4,301	5,183
Staff welfare fund	168	426
Contribution to social security	163	—
	<u>4,632</u>	<u>5,609</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:

	2003 RMB'000	2002 RMB'000
Fees	—	—
Other emoluments:		
— basic salaries and allowances	296	271
— bonuses	—	39
— contribution to social security	14	—
	<u>310</u>	<u>310</u>

During the year, no amounts were paid to independent non-executive directors (2002: nil).

12 Directors', supervisors' and senior management's emoluments (continued)

(a) Directors' and supervisors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
RMB nil - RMB1,000,000	<u>15</u>	<u>15</u>

During the year, one executive director and two independent non-executive directors were appointed, and one executive director, one non-executive director and one independent non-executive directors resigned from the board.

The executive directors received individual emoluments for the year ended 31 December 2003 of approximately RMB66,000 (2002: RMB64,000), RMB58,000 (2002: RMB48,000), RMB58,000 (2002: RMB48,000), RMB58,000 (2002: RMB48,000), RMB56,000 (2002: nil), 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 (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003 RMB'000	2002 RMB'000
Basic salaries and allowances, and other benefits	882	830
Bonuses	—	—
Contribution to social security	9	—
	<u>891</u>	<u>830</u>

The emoluments fell within the following band:

Emolument bands	Number of individuals	
	2003	2002
RMB nil - RMB1,000,000	<u>3</u>	<u>3</u>

No emoluments were paid by the Group to these remaining three individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 Intangible assets

	Group and Company			Total RMB'000
	Software copyrights RMB'000	Patent RMB'000	Proprietary technology RMB'000	
	Year ended 31 December 2003			
Opening net book amount	52,370	2,025	—	54,395
Amortisation charge (<i>Note 4</i>)	(11,671)	(1,350)	—	(13,021)
Closing net book amount	<u>40,699</u>	<u>675</u>	<u>—</u>	<u>41,374</u>
At 31 December 2003				
Cost	88,357	8,778	7,110	97,135
Accumulated amortisation	(47,658)	(8,103)	(7,110)	(55,761)
Net book amount	<u>40,699</u>	<u>675</u>	<u>—</u>	<u>41,374</u>
At 31 December 2002				
Cost	88,357	8,778	7,110	104,245
Accumulated amortisation	(35,987)	(6,753)	(7,110)	(49,850)
Net book amount	<u>52,370</u>	<u>2,025</u>	<u>—</u>	<u>54,395</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 RMB88,357,000 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 RMB30,000,000, Top Group is required to pay the difference between the value and RMB30,000,000 to the Company or the Company has the right to sell the software copyrights back to Top Group for RMB30,000,000.

14 Fixed assets

	Group			Total RMB'000
	Buildings RMB'000	Land use rights RMB'000	Other equipment RMB'000	
Cost or valuation:				
At 1 January 2003	46,713	41,010	3,396	91,119
Additions	80	—	295	375
Disposal of subsidiary (<i>Note 25(d)</i>)	—	—	(10)	(10)
Other disposals	—	—	(40)	(40)
At 31 December 2003	<u>46,793</u>	<u>41,010</u>	<u>3,641</u>	<u>91,444</u>
Accumulated depreciation:				
At 1 January 2003	3,255	1,892	1,991	7,138
Charge for the year (<i>Note 4</i>)	1,131	841	652	2,624
Other disposals	—	—	(24)	(24)
At 31 December 2003	<u>4,386</u>	<u>2,733</u>	<u>2,619</u>	<u>9,738</u>
Net book value:				
At 31 December 2003	<u>42,407</u>	<u>38,277</u>	<u>1,022</u>	<u>81,706</u>
At 31 December 2002	<u>43,458</u>	<u>39,118</u>	<u>1,405</u>	<u>83,981</u>

The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:

	Group			Total RMB'000
	Buildings RMB'000	Land use rights RMB'000	Other equipment RMB'000	
At cost	1,714	—	3,641	5,355
At valuation	45,079	41,010	—	86,089
	<u>46,793</u>	<u>41,010</u>	<u>3,641</u>	<u>91,444</u>

14 Fixed assets (continued)

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

	Buildings	Land use	Other	Total
	RMB'000	rights	equipment	RMB'000
		RMB'000	RMB'000	
At cost	1,634	—	3,396	5,030
At valuation	45,079	41,010	—	86,089
	<u>46,713</u>	<u>41,010</u>	<u>3,396</u>	<u>91,119</u>
		Company		
		Land use	Other	
	Buildings	rights	equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:				
At 1 January 2003	46,713	41,010	3,289	91,012
Additions	80	—	129	209
Disposals	—	—	(40)	(40)
At 31 December 2003	<u>46,793</u>	<u>41,010</u>	<u>3,378</u>	<u>91,181</u>
Accumulated depreciation:				
At 1 January 2003	3,255	1,892	1,982	7,129
Charge for the year	1,131	841	625	2,597
Disposals	—	—	(24)	(24)
At 31 December 2003	<u>4,386</u>	<u>2,733</u>	<u>2,583</u>	<u>9,702</u>
Net book value:				
At 31 December 2003	<u>42,407</u>	<u>38,277</u>	<u>795</u>	<u>81,479</u>
At 31 December 2002	<u>43,458</u>	<u>39,118</u>	<u>1,307</u>	<u>83,883</u>

14 Fixed assets (continued)

The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:

	Buildings	Land use	Other	Total
	RMB'000	rights	equipment	RMB'000
		RMB'000	RMB'000	
At cost	1,714	—	3,378	5,092
At valuation	45,079	41,010	—	86,089
	<u>46,793</u>	<u>41,010</u>	<u>3,378</u>	<u>91,181</u>

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

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

The Group's buildings and land use rights as at 31 December 2000 were appraised by Sallmanns (Far East) Limited, an independent firm of professional valuer, 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 RMB33,562,000 as at 31 December 2000 was credited to the revaluation surplus.

15 Investments in subsidiaries

	Company	
	2003	2002
	RMB'000	RMB'000
Investments at cost:		
Unlisted shares	<u>23,800</u>	<u>40,000</u>

The following were the significant subsidiaries at 31 December 2003:

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%
Shaanxi Top Sci-Tech Co., Ltd.	PRC, limited liability company	The same as those of the Group, PRC	RMB 5,000,000	96%

At 30 September 2003, the Group disposed one of its subsidiaries, Shanghai Top Sci-Tech Company Limited, at a consideration of RMB22,100,000, and recorded disposal gain of approximately RMB2,046,000 (Note 25(d)).

16 Investment securities

	Group and Company	
	2003	2002
	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	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Work-in-progress on contracts	11,077	5,644	5,385	2,640
Merchandise goods for sale	5,803	6,770	2,481	1,916
	<u>16,880</u>	<u>12,414</u>	<u>7,866</u>	<u>4,556</u>
Less: provision for obsolescence	(1,507)	(2,921)	(730)	(2,019)
	<u>15,373</u>	<u>9,493</u>	<u>7,136</u>	<u>2,537</u>

As at 31 December 2003, the carrying amount of inventories that are carried at net realisable value amounted to approximately RMB7,979,000 (2002: RMB2,341,000).

18 Trade and other receivables

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables, net (<i>Note a</i>)	14,260	51,261	8,520	37,305
Prepayments	5,448	4,673	221	422
Other receivables, net (<i>Note b</i>)	5,222	8,861	3,503	8,780
	<u>24,930</u>	<u>64,795</u>	<u>12,244</u>	<u>46,507</u>

18 Trade and other receivables (continued)

Notes:

(a) As at 31 December 2003, the ageing analysis of the trade receivables were as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Not exceeding one year	12,104	48,927	7,705	34,453
More than one year but not exceeding two years	6,057	9,595	2,881	9,595
More than two years but not exceeding three years	6,262	4,450	6,262	4,450
More than three years	14,556	10,106	14,556	10,106
	<u>38,979</u>	<u>73,078</u>	<u>31,404</u>	<u>58,604</u>
Less: provision for doubtful debts	<u>(24,719)</u>	<u>(21,817)</u>	<u>(22,884)</u>	<u>(21,299)</u>
	<u>14,260</u>	<u>51,261</u>	<u>8,520</u>	<u>37,305</u>

The Group's sales are mainly with credit terms ranging from 3 months to 6 months.

(b) As at 31 December 2003, the breakdown of other receivables was as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Other receivables	10,365	15,556	8,587	15,403
Less: provision for doubtful debts	<u>(5,143)</u>	<u>(6,695)</u>	<u>(5,084)</u>	<u>(6,623)</u>
	<u>5,222</u>	<u>8,861</u>	<u>3,503</u>	<u>8,780</u>

19 Trade payables

As at 31 December 2003, all trade payables were payable within one year (2002: all within one year).

20 Warranty provisions

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2003	143	733	115	733
Additional provisions	226	—	202	—
Less: unused amounts reversed	—	(245)	—	(291)
Less: amounts utilised	(259)	(345)	(224)	(327)
	<u>110</u>	<u>143</u>	<u>93</u>	<u>115</u>
At 31 December 2003	<u>110</u>	<u>143</u>	<u>93</u>	<u>115</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 RMB110,000 (2002: RMB143,000) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

21 Pensions and other post retirement obligations

The Group has not set up a pension 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 of the local social security bureau upon their joining the Group. Before September 2003, the Group deducted contributions from the employees' payroll and the total amount was charged as part of employee's salaries. As from September 2003, contributions to pension schemes are calculated based on a certain percentage of salary of employees prescribed by local government and are borne by the Group. The benefits of the schemes vest fully with the employees.

Except as disclosed above, the Group did not incur any other expenses in providing housing and pension schemes to its employees during the year, and does not have any other obligation in relation to pension benefits of its employees.

22 Share capital

As at 31 December 2003, details of the Company's share capital were as follows:

	Number of shares		Amount	
	2003 '000	2002 '000	2003 RMB'000	2002 RMB'000
Registered, issued and fully paid				
Legal person shares with par value of RMB0.1 each	351,000	351,000	35,100	35,100
Individual shares with par value of RMB0.1 each	156,000	156,000	15,600	15,600
H shares with par value of RMB 0.1 each	169,000	169,000	16,900	16,900
	<u>676,000</u>	<u>676,000</u>	<u>67,600</u>	<u>67,600</u>

There was no movements in the Company's share capital during 2002 and 2003.

23 Reserves

	Share premium RMB'000	Revaluation surplus RMB'000	Statutory surplus reserve RMB'000	Group Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2002, as previously reported	96,407	39,485	17,136	9,743	10,220	86,198	259,189
Changes in accounting policy — provision for net deferred tax (Note 2(n))	—	(5,923)	—	—	—	4,937	(986)
At 1 January 2002, as restated	96,407	33,562	17,136	9,743	10,220	91,135	258,203
Net profit for the year	—	—	—	—	—	5,912	5,912
Dividends	—	—	—	—	—	(13,520)	(13,520)
Transfers to statutory reserves	—	—	2,008	1,004	—	(3,012)	—
At 31 December 2002	<u>96,407</u>	<u>33,562</u>	<u>19,144</u>	<u>10,747</u>	<u>10,220</u>	<u>80,515</u>	<u>250,595</u>
At 1 January 2003, as previously reported	96,407	39,485	19,144	10,747	10,220	72,832	248,835
Changes in accounting policy — provision for net deferred tax (Note 2(n))	—	(5,923)	—	—	—	7,683	1,760
At 1 January 2003, as restated	96,407	33,562	19,144	10,747	10,220	80,515	250,595
Net loss for the year	—	—	—	—	—	(9,789)	(9,789)
Transfers to statutory reserves	—	—	50	25	—	(75)	—
Reserves transferred out upon disposal of a subsidiary	—	—	(117)	(59)	—	176	—
At 31 December 2003	<u>96,407</u>	<u>33,562</u>	<u>19,077</u>	<u>10,713</u>	<u>10,220</u>	<u>70,827</u>	<u>240,806</u>

23 Reserves (continued)

	Share premium RMB'000	Revaluation surplus RMB'000	Statutory surplus reserve RMB'000	Company Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2002, as previously reported	96,407	39,485	17,009	9,679	10,220	85,116	257,916
Changes in accounting policy — provision for net deferred tax (Note 2(n))	—	(5,923)	—	—	—	4,937	(986)
At 1 January 2002, as restated	96,407	33,562	17,009	9,679	10,220	90,053	256,930
Net profit for the year	—	—	—	—	—	5,171	5,171
Dividends	—	—	—	—	—	(13,520)	(13,520)
Transfers to statutory reserves	—	—	1,886	943	—	(2,829)	—
At 31 December 2002	<u>96,407</u>	<u>33,562</u>	<u>18,895</u>	<u>10,622</u>	<u>10,220</u>	<u>78,875</u>	<u>248,581</u>
At 1 January 2003, as previously reported	96,407	39,485	18,895	10,622	10,220	71,192	246,821
Changes in accounting policy — provision for net deferred tax (Note 2(n))	—	(5,923)	—	—	—	7,683	1,760
At 1 January 2003, as restated	96,407	33,562	18,895	10,622	10,220	78,875	248,581
Net loss for the year	—	—	—	—	—	(7,867)	(7,867)
At 31 December 2003	<u>96,407</u>	<u>33,562</u>	<u>18,895</u>	<u>10,622</u>	<u>10,220</u>	<u>71,008</u>	<u>240,714</u>

23 Reserves (continued)

(a) *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.

(b) *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.

(c) *Appropriation of reserves*

For the year ended 31 December 2003, the directors of the Company resolved not to appropriate any profit to the statutory surplus reserve and statutory public welfare fund (the Group: RMB50,000 and RMB25,000).

For the year ended 31 December 2002, the directors of the Company resolved to appropriate RMB1,886,000 and RMB943,000 (the Group: RMB2,008,000 and RMB1,004,000) to the statutory surplus reserve and statutory public welfare fund respectively.

24 Deferred taxation

Deferred taxation of the Company and subsidiaries are calculated in full on temporary differences under the liability method using a principal taxation rate of 15% and 33%, respectively (2002: 15% and 33%).

- (a) The movements on the deferred tax assets and liabilities of the Group (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities:

	Revaluation of assets	
	2003 RMB'000	2002 RMB'000
At 1 January	5,670	5,796
Credited to profit and loss account	(126)	(126)
At 31 December	<u>5,544</u>	<u>5,670</u>

Deferred tax assets:

	Impairment of assets and provisions		Accelerated amortisation		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1 January	4,508	2,313	2,922	2,497	7,430	4,810
Credited to profit and loss account	711	2,195	425	425	1,136	2,620
At 31 December	<u>5,219</u>	<u>4,508</u>	<u>3,347</u>	<u>2,922</u>	<u>8,566</u>	<u>7,430</u>

	2003 RMB'000	2002 RMB'000
Deferred tax assets	8,566	7,430
Deferred tax liabilities	<u>5,544</u>	<u>5,670</u>
	<u>3,022</u>	<u>1,760</u>

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	5,219	7,430
Deferred tax liabilities to be settled after more than 12 months	<u>5,418</u>	<u>5,544</u>

24 Deferred taxation (continued)

- (b) The movements on the deferred tax assets and liabilities of the Company (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities:

	Revaluation of assets	
	2003 RMB'000	2002 RMB'000
At 1 January	5,670	5,796
Credited to profit and loss account	(126)	(126)
At 31 December	<u>5,544</u>	<u>5,670</u>

Deferred tax assets:

	Impairment of assets and provisions		Accelerated amortisation		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1 January	4,508	2,313	2,922	2,497	7,430	4,810
(Charged) credited to profit and loss account	(137)	2,195	425	425	288	2,620
At 31 December	<u>4,371</u>	<u>4,508</u>	<u>3,347</u>	<u>2,922</u>	<u>7,718</u>	<u>7,430</u>

	2003 RMB'000	2002 RMB'000
Deferred tax assets	7,718	7,430
Deferred tax liabilities	<u>5,544</u>	<u>5,670</u>
	<u>2,174</u>	<u>1,760</u>

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	4,371	7,430
Deferred tax liabilities to be settled after more than 12 months	<u>5,418</u>	<u>5,544</u>

25 Consolidated cash flow statement

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

	2003	As restated 2002
	RMB'000	RMB'000
(Loss) profit before taxation	(11,053)	6,179
Provision for doubtful debts	2,583	15,058
(Write-back of) provision for inventory obsolescence	(1,359)	1,547
Depreciation of fixed assets	2,624	3,162
Amortisation of intangible assets	13,021	14,444
Gain on disposal of subsidiary	(2,046)	—
Gain on disposal of fixed assets	(5)	—
Interest expense	—	1,428
Interest income	(1,613)	(1,995)
	<hr/>	<hr/>
Operating profit before working capital changes	2,152	39,823
(Increase) decrease in inventories	(4,620)	6,020
Decrease (increase) in trade and other receivables	1,709	(42,511)
Decrease in amounts due from related parties	1,203	9,576
Increase in trade payables	5,331	2,306
Increase in other payables and accruals	14,083	4,217
Decrease in warranty provisions	(33)	(590)
Increase (decrease) in amounts due to related parties	7,218	(2,278)
(Decrease) increase in taxation payable	(5,560)	4,038
	<hr/>	<hr/>
Net cash inflow from operations	21,483	20,601
	<hr/> <hr/>	<hr/> <hr/>

25 Consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Dividend payable		Share capital including premium		Minority interests	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	—	—	164,007	164,007	10,385	1,067
Minority interests' share of profits	—	—	—	—	(790)	318
Dividends	—	13,520	—	—	—	—
Disposal of subsidiary	—	—	—	—	(8,595)	—
Cash inflows (outflows)	—	(13,520)	—	—	200	9,000
At 31 December	—	—	164,007	164,007	1,200	10,385

(c) Analysis of cash and cash equivalents

	Group	
	2003 RMB'000	2002 RMB'000
Cash on hand	3	94
Cash in banks		
— Current deposits	11,865	103,414
— Fixed deposits (i)	164,284	30,128
	<u>176,152</u>	<u>133,636</u>

(i) Fixed deposits in banks

As at 31 December 2003, fixed deposits represented cash deposited in banks with interest at rates ranging from 1.89% to 1.98% per annum (2002: 1.71%).

25 Consolidated cash flow statement (continued)

(d) Sale of subsidiary

On 30 September 2003, the Group disposed one of its subsidiaries, Shanghai Top Sci-Tech Company Limited, at a consideration of RMB22,100,000.

	At 30 September 2003 RMB'000
Net assets disposed	
Fixed assets (Note 14)	10
Inventories, net	99
Trade and other receivables, net	36,471
Due from related parties	1
Bank balances and cash	525
Trade payables	(4,793)
Other payables and accruals	(3,060)
Taxation payable	(604)
Minority shareholder's interest	(8,595)
	<hr/>
Net assets disposed	20,054
	<hr/> <hr/>
Proceeds from disposal	22,100
	<hr/>
Gain on disposal	2,046
	<hr/> <hr/>
Analysis of the net inflow in respect of the disposal of subsidiary:	
The net cash inflow on sale is determined as follows:	
Proceeds from sale	22,100
Less: cash and cash equivalents in subsidiary sold	(525)
	<hr/>
Sale of subsidiary, net of cash disposed	21,575
	<hr/> <hr/>

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 ("Topsoft Investment")	Majority shareholder of the Company
Sichuan Top Sci-Tech Development Company ("Top Development")	Ultimate holding company of the 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 Company Limited ("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)
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 (Anshan) 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

26 Related party transactions (continued)

(b) The Group had the following material transactions with related parties for the year ended 31 December 2003:

	2003 RMB'000	2002 RMB'000
(1) Sales of goods to related parties:		
Top Group	800	598
Xian Top	52	150
Top Chang Zheng	—	10
Top Northeast Software Park	—	855
Yunnan Top	—	740
Top Northwest Software Park	—	215
Top Development	—	193
	<u>852</u>	<u>2,761</u>
(2) Purchases of contract materials from related parties:		
Top Group	5,589	—
Topsoft Investment	171	95
Top Computer	4	3
Top Telecommunication	—	30
	<u>5,764</u>	<u>128</u>
(3) Property construction costs payable to related party:		
Top Development	—	1,463
	<u>—</u>	<u>1,463</u>

On 8 March 2001, the Company entered into a construction contractor agreement with Top Development. Pursuant to this agreement, Top Development would 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 expired on 31 December 2003.

26 Related party transactions (continued)

(b) The Group had the following material transactions with related parties for the year ended 31 December 2003: (continued)

	2003 RMB'000	2002 RMB'000
(4) Rental income from related party:		
Top Group	<u>1,229</u>	<u>1,243</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.

	2003 RMB'000	2002 RMB'000
(5) Composite services fees payable to related party:		
Top Group	<u>887</u>	<u>830</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 expired on 31 December 2003, the renewed agreement commenced on 1 January 2004 and will expire on 31 December 2006. The terms of 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.

26 Related party transactions (continued)

- (b) The Group had the following material transactions with related parties for the year ended 31 December 2003: (continued)

	2003 RMB'000	2002 RMB'000
(6) Equipment leasing fee payable to related party:		
Top Group	—	110
	<u> </u>	<u> </u>
(7) Rental expenses payable to related party:		
Top Group	200	400
	<u> </u>	<u> </u>

On 1 May 2000, the Company entered into a property leasing agreement with Top Group, Top Group agreed to let a property to the Company for a term of four years commencing from 1 May 2000. Based on the agreement and a supplementary agreement effective January 2003, the actual rental is based on the area used by the Company, and the maximum rental per year is RMB400,000.

	2003 RMB'000	2002 RMB'000
(8) Interest income from related party:		
Sichuan Finance Lease	—	748
	<u> </u>	<u> </u>

As at 31 December 2001, the Company had cash deposits in Sichuan Finance Lease amounted to RMB67,091,000, 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, and received interest income of approximately RMB748,000.

- (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 2003, the Group had no significant contingent liabilities.

28 Commitments

As at 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003 RMB'000	2002 RMB'000
Not later than one year	—	424

29 Subsequent events

No significant events have taken place subsequent to 31 December 2003.

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 accounts

The accounts were approved by the board of directors on 19 March 2004.

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.