



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)

Interim Report 2004

** For identification purposes only*

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

INTERIM RESULTS

The board of directors (the “Board”) of Chengdu Top Sci-Tech Company Limited (the “Company”) announces the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 and the comparatives for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	For the six months ended 30 June		For the three months ended 30 June	
		2004 (unaudited) RMB'000	2003 (unaudited) RMB'000	2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
Turnover	3	7,167	13,346	3,406	5,395
Cost of sales		(6,526)	(6,524)	(3,493)	(2,828)
Amortization of intangible assets		(6,511)	(6,511)	(3,256)	(3,256)
Gross (loss) profit		(5,870)	311	(3,343)	(689)
Other revenue	3	1,277	1,060	328	328
Distribution costs		(2,179)	(1,628)	(923)	(788)
Administrative expenses		(10,555)	(1,619)	(8,492)	(928)
Other operating expenses		(184)	(146)	(112)	(74)
Provision for loss from corporate guarantee	16(b)	(30,576)	—	(30,576)	—
Operating loss	4	(48,087)	(2,022)	(43,118)	(2,151)
Finance costs		(19)	(3)	(8)	(2)
Subsidy income	5	119	564	33	9
Loss before taxation		(47,987)	(1,461)	(43,093)	(2,144)
Taxation	2, 6	1,937	(535)	1,668	(235)
Loss after taxation		(46,050)	(1,996)	(41,425)	(2,379)
Minority interests		43	574	1	9
Loss attributable to shareholders		(46,007)	(1,422)	(41,424)	(2,370)
Dividends	7	—	—	—	—
Basic loss per share	8	RMB(0.0681)	RMB(0.0021)	RMB(0.0613)	RMB(0.0035)

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2004 (unaudited) RMB'000	As at 31 December 2003 (audited) RMB'000
Non-current assets			
Intangible assets, net	9	34,863	41,374
Fixed assets, net	10	80,623	81,706
Investment securities		9,050	9,050
Deferred tax assets	6	10,153	8,566
		<u>134,689</u>	<u>140,696</u>
Current assets			
Inventories, net	11	15,445	15,373
Trade and other receivables, net	12	49,323	24,930
Due from related parties	15	120,420	2,231
Bank balances and cash		3,926	176,152
		<u>189,114</u>	<u>218,686</u>
Current liabilities			
Trade payables	13	8,818	11,722
Other payables and accruals		14,076	23,405
Provision for loss from corporate guarantee	16(b)	30,576	—
Taxation payable		230	648
Provision for warranty		30	110
Due to related parties	15	1,036	8,347
		<u>54,766</u>	<u>44,232</u>
Net current assets		<u>134,348</u>	<u>174,454</u>
Total assets less current liabilities		<u>269,037</u>	<u>315,150</u>
Financed by:			
Share capital	14	67,600	67,600
Reserves		169,979	169,979
Retained earnings		24,820	70,827
		<u>262,399</u>	<u>308,406</u>
Minority interests		1,157	1,200
Non-current liabilities			
Deferred tax liabilities	6	5,481	5,544
		<u>269,037</u>	<u>315,150</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June 2004 (unaudited) RMB'000	For the six months ended 30 June 2003 (unaudited) RMB'000
Net cash outflow from operating activities	(172,113)	(43,123)
Investing activities		
Purchases of fixed assets	(113)	(170)
Proceed from disposal of fixed assets	—	5
Net cash outflow from investing activities	<u>(113)</u>	<u>(165)</u>
Net cash outflow before financing	<u>(172,226)</u>	<u>(43,288)</u>
Financing activities		
Capital injection by minority shareholders	—	200
Net cash inflow from financing activities	<u>—</u>	<u>200</u>
Decrease in cash and cash equivalents	(172,226)	(43,088)
Cash and cash equivalents, beginning of period	<u>176,152</u>	<u>133,636</u>
Cash and cash equivalents, end of period	<u><u>3,926</u></u>	<u><u>90,548</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) RMB'000	Capital surplus (unaudited) RMB'000	Revaluation surplus (unaudited) RMB'000	Statutory			Retained earnings (unaudited) RMB'000	Total (unaudited) RMB'000
				Statutory surplus reserve (unaudited) RMB'000	public welfare fund (unaudited) RMB'000	Discretionary surplus reserve (unaudited) RMB'000		
As at 1 January 2003								
- As previously reported	67,600	96,407	39,485	19,144	10,747	10,220	72,832	316,435
- Prior period adjustments for deferred taxation (Note 2)	—	—	(5,923)	—	—	—	7,683	1,760
- As restated	67,600	96,407	33,562	19,144	10,747	10,220	80,515	318,195
Loss attributable to shareholders	—	—	—	—	—	—	(1,422)	(1,422)
As at 30 June 2003	<u>67,600</u>	<u>96,407</u>	<u>33,562</u>	<u>19,144</u>	<u>10,747</u>	<u>10,220</u>	<u>79,093</u>	<u>316,773</u>
As at 1 January 2004	67,600	96,407	33,562	19,077	10,713	10,220	70,827	308,406
Loss attributable to shareholders	—	—	—	—	—	—	(46,007)	(46,007)
As at 30 June 2004	<u>67,600</u>	<u>96,407</u>	<u>33,562</u>	<u>19,077</u>	<u>10,713</u>	<u>10,220</u>	<u>24,820</u>	<u>262,399</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Organisation and operations

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

The principal activities of the Group include 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.

2. Basis of preparation and principal accounting policies

The Group's unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting standards and Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and with the disclosure requirements of the Rules Governing the Listing Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The principal accounting policies adopted in preparing the accounts are consistent with those used in the annual financial statements for the year ended 31 December 2003 of the Group.

In prior year, it was the first time of the Group to adopt the new SSAP 12 representing a change in accounting policy, which had been applied retrospectively so that the deferred taxation and its related comparatives presented had been restated to conform with the changed policy. The opening retained earnings and revaluation surplus of the Group at 1 January 2003 had been respectively increased by approximately RMB7,683,000 and decreased by approximately RMB5,923,000; and the loss for the six months ended 30 June 2003 and profit for the three months ended 31 March 2003 had been respectively increased by approximately RMB29,000 and RMB109,000.

3. Turnover and revenue

Revenues of the Group recognised during the period are as follows:

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of software and information system	4,154	12,601	2,782	5,395
Sales of information technology related products	3,013	745	624	(10)
	<u>7,167</u>	<u>13,346</u>	<u>3,406</u>	<u>5,395</u>
Other revenue				
Rental income	427	719	193	344
Interest income	826	326	133	21
Other	24	15	2	(37)
	<u>1,277</u>	<u>1,060</u>	<u>328</u>	<u>328</u>
Total revenues	<u><u>8,444</u></u>	<u><u>14,406</u></u>	<u><u>3,734</u></u>	<u><u>5,723</u></u>

4. Operating loss

Operating loss is stated after charging and crediting the following:

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Charging				
Amortization of intangible assets	6,511	6,511	3,256	3,256
Depreciation of fixed assets	1,195	1,341	600	666
Loss on disposal of fixed assets	1	1	1	1
Staff costs (including directors' and supervisors' emoluments)				
- Salaries, bonuses and wages	1,578	1,767	699	792
- Staff welfare fund	265	201	118	91
Cost of sales	6,526	6,524	3,493	2,828
Provision for inventory obsolescence	506	—	763	180
Provision for doubtful debts	7,816	—	7,183	49
Provision for warranty	—	70	—	—
Provision for loss from corporate guarantee	30,576	—	30,576	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Crediting				
Write-back of provision for inventory obsolescence	—	449	—	—
Write-back of provision for doubtful debts	—	883	—	—
Write-back of provision for warranty	45	—	20	31
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. Subsidy income

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Financial refund (a)	—	—	—	—
Tax refund (b)	119	564	33	9
	<u>119</u>	<u>564</u>	<u>33</u>	<u>9</u>

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

- (a) *Enterprise income tax ("EIT")*

In accordance with relevant tax regulations, a New and High Technology Enterprise operating in a State Level New and High Technology Development Zone ("NHTDZ") is entitled to a reduced EIT rate of 15%. The Company is recognized as a New and High Technology Enterprise and is registered in Chengdu NHTDZ. Accordingly, the Company is subject to EIT at 15%. The subsidiaries of the Company are subject to EIT at 33%.

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

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

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation				
– Provision for current EIT	—	796	—	373
– Reversal of over-provision for EIT in prior periods	(287)	—	(287)	—
Deferred taxation	(1,650)	(261)	(1,381)	(138)
Total	(1,937)	535	(1,668)	235

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

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	(47,987)	(1,461)	(43,093)	(2,144)
Calculated at a taxation rate of 15% (2003: 15%)	(7,198)	(219)	(6,464)	(322)
Effect of different taxation rates in subsidiaries	(245)	(468)	(60)	(45)
Income not subject to taxation	(18)	(85)	(5)	(1)
Expenses not deductible for taxation purposes	5,811	1,307	5,148	603
Reversal of over-provision for EIT in prior periods	(287)	—	(287)	—
Taxation	(1,937)	535	(1,668)	235

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 (2003: 15% and 33%)

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

(i) Deferred tax liabilities:

	Revaluation of assets	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	5,544	5,670
Credited to profit and loss account	(63)	(126)
	<u>5,481</u>	<u>5,544</u>
At 30 June/31 December	<u><u>5,481</u></u>	<u><u>5,544</u></u>

(ii) Deferred tax assets:

	Impairment of assets and provisions		Accelerated amortisation		Total	
	2004	2003	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	5,219	4,508	3,347	2,922	8,566	7,430
Credited to profit and loss amount	1,374	711	213	425	1,587	1,136
	<u>6,593</u>	<u>5,219</u>	<u>3,560</u>	<u>3,347</u>	<u>10,153</u>	<u>8,566</u>
At 30 June/31 December	<u><u>6,593</u></u>	<u><u>5,219</u></u>	<u><u>3,560</u></u>	<u><u>3,347</u></u>	<u><u>10,153</u></u>	<u><u>8,566</u></u>

(b) *Value-added tax ("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 paid 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")*

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

(d) *Surtaxes*

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

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

The Company has been recognised as a sino-foreign jointly owned company on 15 July 2002, and is entitled to exemption from the above surtaxes in accordance with relevant tax regulations as from that date.

7. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

8. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders for the six months and three months ended 30 June 2004 of respectively approximately RMB46,007,000 and RMB41,424,000 (six months and three months ended 30 June 2003: approximately RMB1,422,000 and RMB2,370,000 respectively) and on the weighted average of outstanding 676,000,000 shares for the six months and three months ended 30 June 2004 (during the six months and three months ended 30 June 2003: 676,000,000 shares).

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

9. Intangible assets

	Software copyright <i>RMB'000</i>	Patent <i>RMB'000</i>	Proprietary technology <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2004				
Opening net book amount	40,699	675	—	41,374
Amortization charge (Note 4)	(5,836)	(675)	—	(6,511)
Closing net book amount	<u>34,863</u>	<u>—</u>	<u>—</u>	<u>34,863</u>
As at 30 June 2004				
Cost	88,357	8,778	7,110	104,245
Accumulated amortization	(53,494)	(8,778)	(7,110)	(69,382)
Net book amount	<u>34,863</u>	<u>—</u>	<u>—</u>	<u>34,863</u>
As at 31 December 2003				
Cost	88,357	8,778	7,110	104,245
Accumulated amortization	(47,658)	(8,103)	(7,110)	(62,871)
Net book amount	<u>40,699</u>	<u>675</u>	<u>—</u>	<u>41,374</u>

10. Fixed assets

	Buildings	Land use rights	Other equipment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost or valuation				
As at 1 January 2004	46,793	41,010	3,641	91,444
Additions	—	—	113	113
Disposal	—	—	(7)	(7)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2004	46,793	41,010	3,747	91,550
Including:				
At cost	1,714	—	3,641	5,355
At valuation	45,079	41,010	—	86,089
	<hr/>	<hr/>	<hr/>	<hr/>
	46,793	41,010	3,641	91,444
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Accumulated depreciation				
As at 1 January 2004	4,386	2,733	2,619	9,738
Charge for the period (Note 4)	566	421	208	1,195
Disposal	—	—	(6)	(6)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2004	4,952	3,154	2,821	10,927
Net book value				
As at 30 June 2004	41,841	37,856	926	80,623
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 December 2003	42,407	38,277	1,022	81,706
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11. Inventories

	As at 30 June 2004	As at 31 December 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Work-in-progress on contracts	11,913	11,077
Merchandise goods for sales	5,545	5,803
	<hr/>	<hr/>
	17,458	16,880
Less: provision for obsolescence	(2,013)	(1,507)
	<hr/>	<hr/>
	15,445	15,373
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2004, the carrying amount of inventories, that are carried at net realizable value amounted to approximately RMB3,472,000 (as at 31 December 2003: approximately RMB7,979,000).

12. Trade and other receivables, net

	As at 30 June 2004	As at 31 December 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, net (<i>Note a</i>)	5,538	14,260
Prepayments	4,444	5,448
Other receivables, net (<i>Note b</i>)	39,341	5,222
	<u>49,323</u>	<u>24,930</u>

Notes:

(a) As at 30 June 2004, the ageing analysis of trade receivables was as follows:

	As at 30 June 2004	As at 31 December 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Not exceeding one year	4,420	12,104
More than one year but not exceeding two years	2,679	6,057
More than two years but not exceeding three years	4,311	6,262
More than three years	18,247	14,556
	<u>29,657</u>	<u>38,979</u>
Less: provision for doubtful debts	(24,119)	(24,719)
	<u>5,538</u>	<u>14,260</u>

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

(b) As at 30 June 2004, the breakdown of other receivables was as follows:

	As at 30 June 2004	As at 31 December 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	52,900	10,365
Less: provision for doubtful debts	(13,559)	(5,143)
	<u>39,341</u>	<u>5,222</u>

On 2 April 2004, the Group made a loan to an investee company, Changdu Western Software Park Company Limited ("Western Software Park"), of RMB44,012,000. The loan is unsecured, interest calculated at the prevailing bank rate for working capital borrowings and repayable on 31 December 2004. Western Software Park is a company incorporated in the PRC in which the Company holds 7.05% interest and Top Group holds 10% interest. Currently, as the loan arranged between enterprises is contrary to the PRC regulations, the Group is asking Western Software Park for the cancellation of the relevant loan agreement and refund of such money. Included in other receivables, as at 30 June 2004, the accumulated amount owing by Western Software Park to the Group was approximately RMB39,671,000.

13. Trade payables

As at 30 June 2004, all trade payables were payable within one year (2003: all within one year).

14. Share capital

	Number of shares		Amount	
	As at 30 June 2004	As at 31 December 2003	As at 30 June 2004	As at 31 December 2003
	<i>'000</i>	<i>'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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 RMB0.1 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>

15. Related party transactions

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

Name of related party	Relationship
Sichuan Top Sci-Tech Development Company ("Top Development")	Ultimate holding company
Sichuan Topsoft Investment Company Limited ("Topsoft Investment")	Majority shareholder of the Company
Sichuan Top Computer Company Limited ("Top Computer")	Shareholder of the Company and subsidiary of Topsoft Investment
Top Group Technology Development Company Limited ("Top Group")	Subsidiary of Top Development
Xian Top Software Company Limited ("Xian Top")	Subsidiary of Topsoft Investment
Sichuan Top Education Investment Company Limited ("Top Education")	Subsidiary of Topsoft Investment

- (b) During the period, the Group had the following material transactions with related parties:

	For the six months ended 30 June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
(i) Sales of goods to a related party:		
Xian Top	—	60
	<u> </u>	<u> </u>
(ii) Purchases of contract materials from related parties:		
Top Group	—	2,040
Topsoft Investment	1	200
	<u> </u>	<u> </u>
	1	2,240
	<u> </u>	<u> </u>
(iii) Rental income from related parties		
Top Group	—	550
Top Computer	43	99
Top Education	4	—
	<u> </u>	<u> </u>
	47	649
	<u> </u>	<u> </u>

Pursuant to a property leasing agreement entered into between the Company and Top Group on 8 March 2001, 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.

- (iv) Composite services fee payable to related parties:

	For the six months ended 30 June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Top Group	<u>110</u>	<u>586</u>

On 19 September 2003, the Company entered into a composite services agreement with Top Group for the renewal of the composite services agreement, which was entered by the Company and Top Group on 8 March 2001 with the expiry date on 31 December 2003, whereby Top Group will provide the following services to the Company:

- Supply of water and electricity
- Telecommunication services
- Vehicle leasing services
- Building maintenance services

The composite services agreement will expire on 31 December 2006 and the services shall be provided at:

- (1) Nation-wide government prescribed prices;
- (2) Where there is no nation-wide government prescribed price, the prescribed price for Sichuan Province or Chengdu City will apply;
- (3) Where there is no nation-wide government prescribed price nor a prescribed price for Sichuan Province or Chengdu City, 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.

**For the six months
ended 30 June**

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>

- (v) Rental expense payable to a related party:

Top Group	<u>57</u>	<u>173</u>
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On 1 May 2000, the Company entered into a property leasing agreement with Top Group. Based on the agreement, Top Group agreed to let a property to the Company for a term of four years commencing from 1 May 2000. The maximum rental per year is RMB400,000.

- (vi) Loans to a related party

On 7 and 12 April 2004, the Group made loans to Top Group of RMB120,200,000 in total. The loans are unsecured, interest calculated at the prevailing bank rate for working capital borrowings and repayable on 31 December 2004. Currently, as the loan arranged between enterprises is contrary to the PRC regulations, the Group is asking Top Group for the cancellation of the relevant loans agreements and refund of such money. Included in the amounts due from related parties, as at 30 June 2004, the accumulated amount owing by Top Group to the Group was approximately RMB118,169,000.

- (vii) Provision of corporate guarantees and pledged guarantee to banks in respect of facilities granted to related parties.

- (1) Since 23 October 2002, a corporate guarantee has been provided by the Group to Chengdu City Binjiang Office Branch, Industrial and Commercial Bank of China in respect of a bank loan to the extent of RMB30,000,000 granted to Top Group. The Group has not entered into any contract nor agreed terms with Top Group in respect of such corporate guarantee.
- (2) Since 27 June 2003, the Group's buildings and land use rights have been pledged with Chengdu Branch, Citic Industrial Bank in respect of bank loan to the extent of RMB40,000,000 granted to Top Group. The Group has not entered into any contract nor agreed terms with Top Group in respect of such pledged guarantee.
- (3) Since 29 December 2003, a corporate guarantee has been provided by the Group to China Merchants Bank in respect of a bank loan to the extent of RMB18,900,000 granted to Topsoft Investment. The Group has not entered into any contract nor agreed terms with Topsoft Investment.

- (c) The amounts due from and due to related parties (other than those specified) were unsecured, non-interest bearing and with no fixed repayment date and primarily arisen from the above transactions.
- (d) In the opinion of the Directors, except for the items (vi) and (vii), the above related party transactions were entered into under normal commercial terms in the ordinary course of the Group's business and in accordance with the terms of the agreements governing the transactions.

16. Contingent liabilities

As at 30 June 2004, the Group had provision of corporate guarantees and pledged guarantee to banks in respect of facilities granted to an investee company, connected persons and a third party, which constituted material contingent liabilities as follows:

- (a) Since 23 June 2002, a corporate guarantee has been provided by the Group to Chengdu Branch, Huaxia Bank in respect of a bank loan to the extent of RMB20,000,000 granted to an investee company, Western Software Park. The Group has not entered into any contract nor agreed terms with Western Software Park in respect of this corporate guarantee. In April 2004, Chengdu Branch, Huaxia Bank sued Western Software Park, the Company and Top Development for recovery of the unrepaid loan of RMB20,000,000 (together with interest thereof) guaranteed by the Company. On 12 July 2004, the court ordered that in case that Western Software Park failed to repay the loan of RMB20,000,000 (together with interest thereof) within 10 days from the day thereof, the Company should bear joint liability for repayment of such loan. Western Software Park, the Company and Top Development should be jointly liable for the court fee of RMB290,530. According to the PRC legal opinion received by the Company, Chengdu Branch, Huaxia Bank had frozen the assets of Western Software Park. Chengdu Branch, Huaxia Bank could sell the frozen assets and further the Company should be jointly liable for the repayment obligation if the proceeds from the sale of frozen assets could not satisfy the aforesaid liabilities. The Directors are of the view that the realisable value of frozen assets should be sufficient to cover the repayment obligation and hence, no provision for the loss arising from such guarantee is required.
- (b) Since 23 October 2002, a corporate guarantee has been provided by the Group to Chengdu City Binjiang Office Branch, Industrial and Commercial Bank of China in respect of a bank loan to the extent of RMB30,000,000 granted to a connected person, Top Group. The Group has not entered into any contract nor agreed terms with Top Group in respect of this corporate guarantee. In March 2004, Chengdu City Binjiang Office Branch, Industrial and Commercial Bank of China sued Top Group and the Company for recovery of unrepaid loan of RMB30,000,000 (together with interest thereof) guaranteed by the Company. Up till now, the case has yet to be heard. The Group has made a provision of approximately RMB30,576,000 for the loss arising from such guarantee into the interim report of 2004.

- (c) Since 13 June 2003, a corporate guarantee has been provided by the Group to Changsha Branch, Industrial Bank Company Limited in respect of a banking facilities to the extent of RMB30,000,000 granted to a third party, Hunan Top Software Company Limited (“Hunan Top”). The Group has not entered into any contract nor agreed terms with Hunan Top in respect of this corporate guarantee. Hunan Top is a company incorporated in the PRC, 53.33% of its equity interest is held by Hunan Hua Yuan Sci-Tech Development Company Limited (“Hunan Hua Yuan”). Hunan Hua Yuan is a company incorporated in the PRC in which Mr. Song Ru Hua, one of the founders of Top Development, holds 29.4% interest. In April 2004, Industrial Bank Company Limited sued Hunan Top, the Company and Hunan Hua Yuan for recovery of the outstanding bank loan and bill payable guaranteed by the Company, totalling approximately RMB24,000,000 and the interest thereof. At the same time, Industrial Bank Company Limited seized assets of Hunan Top as a repayment of the outstanding bank loan and bill payable, totalling approximately RMB24,000,000 and the interest thereof. On 3 June 2004, the court ordered that unless Hunan Top repaid all outstanding loan and bill payable totalling RMB24,000,000 together with the interest thereof being RMB255,000 in 5 days. Otherwise, Industrial Bank Company Limited could sell the seized assets and further the Company should be jointly liable for the repayment obligation if the proceeds from the sale of seized assets could not satisfy the aforesaid liabilities. Hunan Top and the Company should be jointly liable for the court fee of RMB253,000. The Directors are of the view that the realisable value of seized assets should be sufficient to cover the repayment obligation and hence, no provision for the loss arising from such guarantee is required.
- (d) Since 27 June 2003, the Group’s buildings and land use rights have been pledged with Chengdu Branch, Citic Industrial Bank in respect of a bank loan to the extent of RMB40,000,000 granted to a connected person, Top Group. The Group has not entered into any contract nor agreed terms with Top Group in respect of this pledged guarantee. In April 2004, Citic Industrial Bank lodged a lawsuit against Top Group, Sichuan Topsoft Investment Company Limited (“Topsoft Investment”), Jiangsu Chinese.com Company Limited and the Company; and to recover from the Company of the pledged guaranteed outstanding bank loan of RMB40,000,000 and the interest thereof. Topsoft Investment is a company incorporated in the PRC and holding an aggregate direct and indirect interest of 42.30% in the Company. At the same time, Citic Industrial Bank seized the assets of Top Group and Topsoft Investment as a repayment of the outstanding loan and the interest thereof. Currently, the lawsuit is still pending hearing. The Directors are of the view that the realisable value of seized assets should be sufficient to cover the repayment obligation and hence, no provision for loss arising for such pledged guarantee is required.

- (e) Since 29 December 2003, a corporate guarantee has been provided by the Group to China Merchants Bank in respect of a bank loan to the extent of RMB18,900,000 granted to a connected person, Topsoft Investment. The Group has not entered into any contract nor agreed terms with Topsoft Investment in respect of this corporate guarantee. In February 2004, China Merchants Bank has obtained confirmation from the government notary office in respect of the validity and enforceability of the outstanding bank loan of RMB18,900,000 together with the interest thereof due by Topsoft Investment, and the guarantees provided by the Company and Top Development. On 5 March 2004, China Merchants Bank obtained an order from the court that Topsoft Investment, the Company and Top Development failed to discharge their repayment obligation and that assets of Topsoft Investment be frozen. According to the PRC legal opinion received by the Company, China Merchants Bank had frozen the assets of Topsoft Investment. China Merchants Bank could sell the frozen assets and further the Company should be jointly liable for the repayment obligation if the proceeds from the sale of frozen assets could not satisfy the aforesaid liabilities. The Directors are of the view that the realisable value of frozen assets should be sufficient to cover the repayment obligation and hence, no provision for the loss arising from such guarantee is required.
- (f) Since 29 December 2003, a corporate guarantee has been provided by the Group to China Merchants Bank in respect of a bank loan to the extent of RMB9,850,000 granted to an investee company, Western Software Park. The Group has not entered into any contract nor agreed terms with Western Software Park in respect of this corporate guarantee. In March 2004, China Merchants Bank has obtained confirmation from the government notary office in respect of the validity and enforceability of the outstanding loan of RMB9,850,000 together with the interest thereof due by Western Software Park, and the guarantees provided by the Company and Topsoft Investment. On 26 March 2004, China Merchants Bank obtained an order from the court that Western Software Park, the Company and Topsoft Investment failed to discharge their repayment obligation and assets of Topsoft Investment be seized. According to the PRC legal opinion received by the Company, China Merchants Bank had seized the assets of Topsoft Investment. China Merchants Bank could sell the seized assets and further the Company should be jointly liable for the repayment obligation if the proceeds from the sale of seized assets could not satisfy the aforesaid liabilities. The Directors are of the view that the realisable value of seized assets should be sufficient to cover the repayment obligation and hence, no provision for the loss arising from such guarantee is required.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2004, the Group recorded turnover of approximately RMB7,617,000 and loss attributable to shareholders of approximately RMB46,007,000. This represented a drop of 46.3% in term of turnover as compared with the same period last year. The decrease was mainly due to the keen competition of the IT market in the mainland, causing a decline in the total value of the orders received in respect of sales of software and information systems, and the deferral of completion of several projects on progress to the third quarter. Starting from this year, the Group has solidly reinforced the sales of the products, improving the sales of information technology related products. Nevertheless, the profit margin of such category of products was relatively low, reducing the overall gross profit margin which recorded in a loss. The administrative expenses were risen by 551.9% as compared with the same period of last year. The main reason was that the provision for doubtful debts was charged by approximately RMB7,816,000 for the period, which was credited by approximately RMB883,000 for the same period of last year. Before including the calculation of provision for doubtful debts, the administrative expenses of the period increased from approximately RMB2,502,000 of last year to approximately RMB2,739,000 of this year. With the provision of approximately RMB30,576,000 was made to account for the contingent loss arising from corporate guarantee, the resultant loss attributable to shareholders of the Group for the period was further. Currently, the Group continues the adoption to implement strict cost control measures in order to effectively control and contract the Group's overall costs.

Market and Products

The Group is strengthening performance appraisal over sales and service centers for all regions so as to enhance efficiency. In addition, the Group is also actively conducting marketing activities for the purposes of promoting the Group's products and providing value added services as well as enlarging the level of connection with and bases of customers and also maintaining a close relationship with customers. Besides, the Group also continues to provide training for its staff in order to strengthen their technical, production and promotion skills.

With regard to the increasing market competition, the Group underwent a reallocation of production resources so as to develop focusingly on the advantaged products and to build up a more sharp market image. This would increase the well-known and competitiveness of the Company in the market concerned.

Currently, the major products are of “TS’98 Tax Management Information System”, “TPAMIS Housing Reform Management Information System”, “LED Display Control System”, “Government Administration System”, “Biometric Finger Print Identifying System”, “Embedded Operating System”, “CenTs Tax Management Information System” and “Top Social Insurance Application Series Software”

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 30 June 2004, the Group employed 115 staff. For the six months ended 30 June 2004, the total amount of salary paid by the Group to its staff was approximately RMB1,843,000 (six months ended 30 June 2003: approximately RMB1,968,000).

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 minimising 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 optimise the investment return to the Company’s shareholders.

Capital Structure

The following table sets out the share capital of the Company as at 30 June 2004 and 31 December 2003:

	As at 30 June 2004		As at 31 December 2003	
	Total Percentage		Total Percentage	
	<i>RMB'000</i>		<i>RMB'000</i>	
Shareholders' equity	262,399	97.5%	308,406	97.9%
Minority interests	1,157	0.4%	1,200	0.4%
Deferred tax liabilities	5,481	2.1%	5,544	1.7%
Total	<u>269,037</u>	<u>100.0%</u>	<u>315,150</u>	<u>100.0%</u>

Ability to Debt Repayment and Debt Ratio

As at 30 June 2004, the Group did not have any borrowings.

The debt ratio (defined as total liabilities excluding minority interests over total assets) of the Group as at 30 June 2004 was 18.6%.

Liquid Capital and Financial Resources

As at 30 June 2004, the Group had net current assets of approximately RMB134,348,000, including bank balances and cash of approximately RMB3,926,000.

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 30 June 2004, the Group did not have any significant commitment on capital expenditure.

Charged Assets

As at 30 June 2004, the Group's buildings and land use rights have been pledged with Chengdu Branch, Citic Industrial Bank in respect of a bank loan to the extent of RMB40,000,000 granted to Top Group.

Significant Investments

During the six months ended 30 June 2004, the Group did not have any significant investments.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2004, the Company did not have any material acquisition or dispose of subsidiaries and affiliated companies.

Future Plans for Material Investment/Capital Assets

As at 30 June 2004, 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 30 June 2004, no related hedges were made by the Group.

Contingent Liabilities

As at 30 June 2004, the Group's contingent liabilities were set out in note 16 of the unaudited condensed consolidated interim financial statements.

Segmental Information

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

Prospects

For the second half year of 2004, we anticipate that the competition is still keen. It is still of difficulties and care development for the Group. The Group is continuing 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 30 June 2004, the Group had incomplete contracts with aggregate amount of approximately RMB13 million.

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.

ADVANCE AND GUARANTEES TO AN INVESTEE COMPANY

According to Rules 17.15 and 17.24 of the GEM Listing Rules, a disclosure obligation has arisen where any of the percentage ratios of the relevant advance to an entity from the Company or any of its subsidiaries, and guarantees given by the Company or any of its subsidiaries in respect of facilities granted to an entity in aggregate exceeds 8%.

The information disclosed in relation to the advance and guarantees to an investee company, Western Software Park is as follows:

(a) Advance

Date	Nature	Amount of loan RMB'000	Outstanding balance due as at 30 June 2004 RMB'000
2 April 2004	Loan to Western Software Park	44,012	39,671

The loan made by the Group to Western Software Park is unsecured, interest calculated at the prevailing bank rate for working capital borrowings and repayable on 31 December 2004. As loan arranged between enterprises is contrary to the PRC regulations, the Group is asking for Western Software Park for the cancellation of the relevant loan agreement and refund of such money.

(b) Guarantees

Date	Nature	Amount of guarantee <i>RMB'000</i>	Utilisation of banking facilities as at 30 June 2004 <i>RMB'000</i>
23 June 2002	Provision of a corporate guarantee to Chengdu Branch, Huaxia Bank in respect of a bank loan granted to Western Software Park	20,000	20,000
29 December 2003	Provision of a corporate guarantee to China Merchants Bank in respect of a bank loan granted to Western Software Park	9,850	9,850
Total		<u>29,850</u>	<u>29,850</u>

The Group has not obtained any security in respect of the above provision of corporate guarantees for Western Software Park.

DISCLOSURE OF THE DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, 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 5.46 of the GEM Listing Rules were as follows:

Long positions in shares

(a) The Company

Name of Directors	Number of ordinary shares of RMB0.10 each in the Company			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Li Zheng Bin	1,000,000 ⁽¹⁾	Nil	39,000,000 ^{(1),(2)}	40,000,000	5.92%
Mr. Chen Bao Yu	28,000 ⁽¹⁾	Nil	Nil	28,000	0.00%
Name of Supervisors					
Mr. Xu Bo	78,000 ⁽¹⁾	Nil	Nil	78,000	0.01%

Notes:

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

(b) *Associated Corporations*

**Equity interests in Chengdu Top Huaxi Information System Co., Ltd.
("Huaxi Information")⁽¹⁾**

Name of Directors	Personal interests	Family interests	Corporate interests	Total	Percentage of equity interest in the registered share capital
Mr. Chen Wei Xin	RMB300,000	—	—	RMB300,000	3.00%

Notes:

1. As at 30 June 2004, the registered capital of Huaxi Information was RMB10,000,000, where the Company held 95% equity interest thereof.

**Equity interest in Chengdu Top Huaxi Electronics Technology Co., Ltd.
("Huaxi Electronics")⁽¹⁾**

Name of Directors	Personal interests	Family interests	Corporate interests	Total	Percentage of equity interest in the registered share capital
Mr. Lian Chun Hua	RMB300,000	—	—	RMB300,000	3.00%

Notes:

1. As at 30 June 2004, the registered share capital of Huaxi Electronics was RMB10,000,000 where the Company held 95% equity interest thereof.

**Equity interests in Shaanxi Top Sci-Tech Co., Ltd.
("Shaanxi Top")⁽¹⁾**

Name of Directors	Personal interests	Family interests	Corporate interests	Total	Percentage of equity interest in the registered share capital
Mr. Long Ji Gang	RMB200,000	—	—	RMB200,000	4.00%

Notes:

1. As at 30 June 2004, the registered capital of Shaanxi Top was RMB5,000,000, where the Company held 96% equity interest thereof.

Long positions in underlying shares and debentures

None of Directors, Supervisors, chief executives and their respective associates had any long positions in the underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 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 5.46 of the GEM Listings Rules.

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

During the six months ended 30 June 2004, none of the Directors, Supervisors or chief executives was granted options to subscribe for any types of securities of the Company. As at 30 June 2004, 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 30 June 2004, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000 ("Share Option Scheme"). Details of the Share Option Scheme are as follows:

(a) *Purpose*

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

(b) *Who may join*

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

(c) *Payment on acceptance of option offer*

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

(d) *Price of Shares*

The subscription price for H Shares under the Share Option Scheme will be determined by the Board and notified to each grantee and will be no less than the higher of (i) the closing price of the H Shares as stated in the Stock Exchange daily quotations sheet on the date of offer, which must be a business day, (ii) the average closing prices of the H Shares as stated in the Stock Exchange daily quotations sheets for the five business days immediately preceding the date of offer and (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 of the Company in issue from time to time (excluding (i) H Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes; and (ii) any pro rata entitlements to further Shares issued in respect of those H Shares mentioned in (i)) during the period of 10 consecutive years commencing on 25 October 2000.

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

(f) *Time of exercise of option*

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

(g) *Period of Share Option Scheme*

As the Share Option Scheme will remain valid for a period of 10 years commencing on 25 October 2000, its remaining life is approximately 6 years and 4 months (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Share Option Scheme). After termination, no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is notified to the Directors of the Company, as at 30 June 2004, shareholders (other than the Directors, Supervisors and chief executives 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% of the Company. Topsoft Investment owns 82% of Sichuan Top Computer Company Limited ("Top Computer"), which owns 1.92% of the Company. Top Development owns 80% of Chengdu Top Information Network Engineering Company Limited, which owns 1.92% of the Company. Top Development owns 60% of Chengdu Tuoan Sci-Tech Information Company Limited, which owns 0.96% of the Company.
3. Topsoft Investment owns 82% of Top Computer, which owns 1.92% of the Company. Topsoft Investment's direct interest in the Company is 40.38%.
4. The Labour Association of Top Development owns 34.39% of Top Development. As to Top Development's interest in the Company, please see note 2 above.

Saved as disclosed above, as at 31 March 2004, the Directors of the Company were not aware of any other person (other than the Directors, Supervisors or chief executives 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.

RESOLUTION PASSED TO RE-AUDIT THE FINANCIAL STATEMENTS OF YEAR 2003

In view of certain financial assistance transactions made by the Group to entities (including connected persons) were not being reflected and audited in the Company's annual report of year 2003, the Board therefore withdrew the proposed resolutions regarding the approval of the auditors' report and financial statements of year 2003 in the annual general meeting held on 28 June 2004 so that such transactions be audited by the Company's auditors. After re-auditing, a revised annual report for the year 2003 would then be presented to the shareholders for approval. Please refer to the announcement made by the Company on 30 June 2004 for details.

CHANGES OF DIRECTORS, COMPLIANCE OFFICER AND AUTHORIZED REPRESENTATIVE

In the annual general meeting held on 28 June 2004, resolutions were passed for the Company to appoint Mr. Long Ji Gang, Mr. Chen Wei Xin and Mr. Chen Bao Yu as executive Directors and Mr. Xu Jian Ping as non-executive Director. The re-appointment of the executive Director, Mr. Li Zheng Bin, and the independent non-executive Directors, Professor Yang Ji Ke, Professor Wang Ming Dong and Ms. Xiao Bin were all confirmed.

Nevertheless, upon the expiry of the annual general meeting held on 28 June 2004, Ms. Ma Jun, Mr. Fan Jing Ru, Mr. Chen Zhong Hao and Ms. Wang Zu Long retired as executive Directors, and Mr. Huang Wei Bin retired as non-executive Director in accordance with the Articles of Association of the Company. Accordingly, Mr. Fan Jing Ru had no longer been the Compliance Officer and one of the Authorized Representatives of the Company,

The newly appointed executive Director, Mr. Chen Wei Xin, took up the positions of Compliance Officer and Authorized Representative originally held by Mr. Fan Jing Ru with immediate effect.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2004, the Company or its subsidiaries did not purchase, sell or redeem any of the Company's securities.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company established an audit committee on 8 March 2001 with written terms of reference in compliance with Rule 5.28 to Rule 5.33 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 and Mr. Fan Jing Ru withdrew from the audit committee in accordance with Rule 5.28 of the GEM Listing Rules on 31 March 2004, the audit committee comprises three members, namely Professor Yang Ji Ke, Professor Wang Ming Dong and Ms. Xiao Bin, all being the independent non-executive Directors of the Company.

The audit committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2004 and was of the view that the compilation of the accounts has complied with all applicable accounting standard and relevant regulations and laws, and made sufficient disclosure.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30 June 2004.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

By order of the Board

Li Zheng Bin

Chairman

Chengdu, the PRC
12 August 2004