



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 Report 2001

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.

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Chairman's Statement

Dear Shareholders,

I am pleased to present the first annual report of Chengdu Top Sci-Tech Company Limited (the "Company") following its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2001.

Turnover and Profit

For the year ended 31 December 2001, the Company and its subsidiaries (the "Group") recorded a turnover of approximately RMB105,755,000 (2000: approximately RMB106,166,000), representing a slight decline of 0.4% as compared to the same period of 2000. The audited profit attributable to shareholders was approximately RMB28,587,000 (2000: approximately RMB38,480,000), representing a decline of 25.7%. Earnings per share decreased from RMB0.076 of 2000 to RMB0.045 of this year.

The stable income of the Group reflected the continuing demand of information technology and advanced science technology in the geographical areas where the Group's businesses are conducted. Such demand was brought about by the need for enhancing the quality and efficiency of work and for improvement of living standard in such areas. However, due to the downturn of the IT market and the "September 11 event", the commercial confidence became pessimistic. The IT providers reduced the prices of their products substantially. As such, the Group had no choice but to follow the general trend to adjust the price of our products, thus causing a decline of our profit. Notwithstanding the above, with the professionalism and effort of the Group's management and its staff, the Group still achieved a considerable profit.

Steady Strategy of the Company

The Group's development in 2001 was a result of the adoption of the prudent corporate strategies. We continue to undertake our research and development ("R&D") on the foundation to provide IT solutions to government-related entities in the PRC, so as to meet the PRC government's need for system standardisation, system security and enhancement of electronic communication. The Group has taken the following strategies to achieve its objectives:

- Enhancing the organisation and management of the Group by building up a corporate culture that promotes team spirit with increased responsiveness to the rapid changes and development of the technology market;
- Establishing research and development centres in the PRC and overseas;
- Maintaining and strengthening relationships with universities in Sichuan and leading science and technology research institutes in the PRC;
- Expanding sales and marketing activities throughout the PRC by increasing and broadening its sales force and marketing programmes; and

Chairman's Statement

- Strengthening business relationships with government-related entities in the PRC by providing solutions to meet their increasing demand.

As regards our R&D strategy, the Group will concentrate its efforts on the development of modular software. The Group has identified three focus areas of development:

- Multi-layer System Integral Framework Structure designed for government administration;
- Information Security Technology; and
- Embedded Operating System.

State Torch Project Key High Technology Enterprise

In July 2000, the Company was certified by the State High Technology Centre, a centre under the Ministry of Science and Technology, as one of the State Torch Key High Technology Enterprises.

Corporate Culture

"People is the foundation and keeping abreast of innovations" is our business philosophy regulating and guiding the operation and management of the Group. "People is the foundation" means that we treat our staff as our valuable assets and believe that solidarity is our motive force. "Keeping abreast of innovations" means the pursuit of innovations of technology, products, services and management methods are regarded as the basic elements for obtaining cutting edges in business competition. As such, we believe that such corporate culture is beneficial to our clients, staff, shareholders and the society as well.

In addition, the Group continues to keep enhancing the transparency of the Group and maintaining a good communication with the investors and shareholders.

Prospects

Based on our technological strength in providing IT technology to government-related entities, we continue to develop R&D related technology and improve the quality of our services.

We anticipate that with the continuous growth of the PRC economy, the PRC government will continue to promote and encourage the development of IT and advanced technology in order to enhance the quality and efficiency of work as well as the living standard. The PRC's accession into the World Trade Organization will expedite to propel the economic effectiveness of all sectors and the increasing demand for efficient and convenient IT systems from the PRC government-related entities. All these are expedient to the future development of the Group.

As such, the Group will conduct marketing activities in accordance with its business plan and continues to conduct R&D on specific projects relating to advanced IT solutions.

Chairman's Statement

Appreciation

Finally, I would like to express my gratitude and heartfelt appreciation to all staff members of the Group and the retired Director, Mr. Tang Hong Hu, for their valuable contribution and support to the listing and development of the Company.

Li Zheng Bin

Chairman

Chengdu, PRC

19 March 2002

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 up to 31 December 2001:

Major Area	Major Business Objective	Actual Business Progress
<i>IT Solution Development</i>		
Government administration framework software basing on multi-layer system	Complete overall planning of design of system framework of government administration framework, services platform and communication platform of government administration framework software, design and feasibility studies of system service platform, complete encoding the service platform of government administration framework software	The overall planning of design of system framework of government administration framework, services platform and communication platform of government administration framework software, design and feasibility studies of system service platform, and the encoding the service platform of government administration framework software were completed. The Company is now conducting the relevant testing.
Biometric Finger Print Identifying System	Project research and data collection. Setting up overall guidelines for project design. Setting up modules, process flow, composite drawings and design drawings of project system software	Project research and data collection were completed. Overall guidelines for project design were set up. Modules, process flow, composite drawings and design drawings of project system software were set up. The Company is developing the customer-end security software basing on finger print identification technics.
Embedded Operating System	Feasibility study on "Embedded Operating System", development on system hardware	The feasibility study on "Embedded Operating System" and the development on system hardware were completed. Meanwhile, the Company is developing the system software.

Comparison of Business Objectives with Actual Business Progress

Major Area	Major Business Objective	Actual Business Progress
<i>Marketing</i>		
Marketing Activities	<p>Set up sales offices in the PRC</p> <p>Set up information technological centre in USA; construction of basic facilities for the technology and information centre (including office space, site construction development, software and hardware development environment construction, office equipment and operation expenses in the initial stage)</p> <p>Promote brand image of TOP and the products through CCTV and Hong Kong media</p>	<p>The sales centres and service centres in Chengdu expanded and registered as subsidiaries of the Company. In the first quarter of 2002, the Company has further set up a subsidiary in Shanghai. Currently, the office in Chongqing is undertaking the same process.</p> <p>Due to the PRC's foreign exchange policy and the requirement for obtaining the relevant approvals, the establishment of information technological centre in USA is still pending.</p> <p>The Company has promoted the brand image and products of TOP in CCTV since April 2001. The proposed promotion of the brand image of TOP and its products through Hong Kong media aims at internationalising the TOP brand name in line with the establishment of the information technological centre in USA. As the project is still pending for approvals in respect of the establishment of such centre, the promotion activities on TOP brand image and products through Hong Kong media are therefore deferred.</p>

Management Discussion and Analysis

Business Review

The Group is a provider of application software to the government-related entities in the PRC. In the PRC, the various government-related entities are mainly responsible for the economic development of, among others, telecommunication, transportation, taxation, banking, social insurance and labour markets of the country's 31 provinces and cities. In order to suit the market demand in 2001, the Group launched its new product, "Government Administration System". This new system, together with the Group's existing products (including "TS'98 Tax Management Information System", "TPHMIS Housing Reform Management Information System" and "LED Display Control System"), brought about a stable development of the Group's turnover. The turnover of the Group in 2001 was approximately RMB105,755,000, a slight decline of 0.4%, compared with 2000. Due to the recession of the IT market and the occurrence of the "September 11 event", the commercial confidence declined and the IT providers underwent a substantial price cut of their products. These made the Group to have to follow the general environment to adjust the price of its products. As a result, the audited profit attributable to shareholders declined to approximately RMB28,587,000, representing a decrease of 25.7% compared with 2000. Earnings per share decreased from RMB0.076 in 2000 to RMB0.045 of this year.

Business Environment

The PRC's economy continued to develop in 2001, with its GDP growth at 7.3%, which brought about continuous increase of market demand. According to the statistics research conducted by The Center of Computer and Microelectronic Industry Development Research ("CCID") and published in "Annual report of 2001-2002 for the PRC Software Market Research" issued by 賽迪資訊顧問有限公司, the total sale in the PRC's software market in 2001 was RMB28.5 billion with the sales revenue of RMB17.6 billion in 1999 and RMB23 billion in 2000. 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 2002 and 2006 would continue to sustain a growth of 25%. As regards 2002, the sales in the software market of the PRC is forecasted to be RMB35.7 billion, representing an 25.3% increase, compared with 2001.

Sales in the software market of the PRC in 2001

Type of Softwares	Turnover (RMB billion)	Growth rate
Platform software	8.59	16.4%
Intermediary software	1.58	59.6%
Application software	18.33	25.3%
Total	28.5	23.9%

(Source of Information: CCID)

Management Discussion and Analysis

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.

Analysis of Turnover

The turnover of the Group for the year ended 31 December 2001 can be analysed by reference to the categories of the products:

	2001		2000	
	RMB'000	Percentage	RMB'000	Percentage
TS'98 Tax Management Information System	40,604	38.4%	46,148	43.5%
TPHMIS Housing Reform Management Information System	24,398	23.1%	36,725	34.6%
LED Display Control System	21,551	20.4%	22,059	20.8%
Government Administration System	15,305	14.5%	—	—
Other solution systems	3,897	3.6%	1,234	1.1%
Total	105,755	100.0%	106,166	100.0%

The Group's turnover derived from the development and sales of government administration application software and from provision of value added services. The value added services refer to the provision of technology consultancy, after-sales support, installation of proprietary IT solutions into contract materials and training services, etc. The Group normally charges an installation fee of about 5% to 10% of the value of contract materials regarding the installation of proprietary IT solutions into contract materials. In relation to other services such as technology consultancy, after-sales support and training services, the Group would group these services under the contract sum of system solution services in the first instance. Thereafter, the Group would charge the customers for additional value added services, if any, under new contract. Compared with last year, the turnover of this year slightly decreased by 0.4%. The decrease was due to the reasons that the Group followed the market trend to reduce the price of its products as well as the decrease in demand for "TPHMIS Housing Reform Management Information System".

Products and Market

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

During the year, the Group expanded its sales and service centres in Chengdu and for the purpose of promoting and providing after-sales services and of maintaining a close relationship with the clients, such centres were developed into subsidiaries of the Company. In the first quarter of 2002, the Company has further set up a subsidiary in Shanghai. Currently, the office in Chongqing is undertaking the same process. Not only could this help the Group to widen its sales channel, but also facilitate to promote the Group's image.

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

Major products of the Group include "TS'98 Tax Management Information System", "TPHMIS Housing Reform Management Information System" and "LED Display Control System". With the demand for convenient and efficient systems for government administration and management from the PRC government and government-related entities, the Group successfully developed and launched "Government Administration System" during the year, and recorded good revenue. We believe that the continuous improvement in and innovation of application software products and services for the purpose of meeting the market demand help the Group to develop new sales channels and market.

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

Research and Development

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

Management Discussion and Analysis

Human Resources

As at 31 December 2001, the Group employed 290 staff, 25 of whom have master degree and 6 of whom have doctorate degree. For the year ended 31 December 2001, the total amount of salary paid by the Group to its staff was approximately RMB7,942,000 (2000: approximately RMB5,433,000).

A breakdown of employees of the Group by their functions as at 31 December 2000 and 2001 were as follows:

Departments	2001	2000
Management and administration	25	25
Research and development	145	130
Sales and Marketing	100	85
Product acesment and testing	20	16
Total	<u>290</u>	<u>256</u>

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

Financial Analysis

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

Ability to Debt Repayment and Debt Ratio

As at 31 December 2001, the Group had an outstanding unsecured bank loan of RMB30,000,000 which is due for repayment in August 2002, with an interest rate of 7.128% per annum.

The debt ratio (defined as total liabilities excluding minority interests over total assets) of the Group as at the end of the year was 14.3%. The debt ratios of the Group in last two years, indicating a decline, were as follows:

	2001	2000
Debt ratio	14.3%	29.5%

Management Discussion and Analysis

Liquid Capital and Financial Resources

Due to the funds raised from the listing of the Company's H shares on the Stock Exchange and the accumulated growth of the profit of the Group, as at 31 December 2001, the Group had deposits of HK\$62,542,000 and of RMB85,488,000. These deposits, together with cash and cash equivalents, were approximately RMB151,821,000.

The management believes that the Group has sufficient financial resources to repay the debts to meet the needs of undertakings and operating capital, and to pay the final dividends of this year.

Capital Expenditure Commitment

As at 31 December 2001, the Group did not have any significant commitment on capital expenditure.

Share Capital

The following table sets out the share capital of the Company as at 31 December 2001, compared with that of 2000:

	2001		2000	
	Total RMB'000	Percentage	Total RMB'000	Percentage
Shareholders Equity	326,789	91.3%	185,548	86.0%
Minority Interests	1,067	0.3%	—	—
Long-term bank loans, due within one year	30,000	8.4%	30,000	14.0%
Total	<u>357,856</u>	<u>100.0%</u>	<u>214,548</u>	<u>100.0%</u>

Mortgaged Assets

As at 31 December 2001, the Group did not have any of its assets mortgaged.

Significant Investments

During the year, the Company invested RMB19,000,000 to establish two subsidiaries, details of which were set out in note 13 of the financial statements.

Foreign Exchange Risk

A substantial part of the Group's bank deposits, which was in Hong Kong dollars, came from the funds raised through the listing on the Stock Exchange. Such funds were entered into the Company's accounts at the exchange rate of HK\$1.00 to RMB1.0606 on 31 December 2001. Such funds may be required to exchange to RMB or other currencies for implementation of the Group's business objectives, and as a result, the risks of foreign exchange may arise and the Group may gain profit or suffer loss thereby.

Contingent Liabilities

As at 31 December 2001, the Company did not have any material contingent liabilities.

Prospects For 2002

The PRC's economy is expected to grow continuously in 2002. It would bring about a continuous and stable demand for development of electronic communication by the government-related entities.

As at 31 December 2001, the Group had 8 projects in hand, the products of which had been developed but pending completion of the technology solution, with an aggregate contract amount of approximately RMB25 million. It is worth mentioning that the Group successfully developed and launched "Government Administration System" during the year and this recorded a revenue of approximately RMB15,305,000. With the PRC government-related entities demand for enhancement of the convenience and efficiency of government administration and electronic communication, we believe that this product would make substantial contribution to the Group in future.

Furthermore, in order to meet the market need, the Group is conducting researches on and developing "Biometric Finger Print Identifying System" and "Embedded Operating System". As at 31 December 2001, the Group had a total of 6 uncompleted contracts for "Biometric Finger Print Identifying System" and "Embedded Operating System", with an aggregate contract amount of approximately by RMB10 million. We believe that such sum could be booked in the Group's accounts in 2002, and such products, upon completion, could bring about considerable amount of revenue.

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

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

Report of the Directors

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; and participating in the research, development, production and distribution of IT solutions of government administration systems.

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.

Results and Dividends

The Group's profit for the year ended 31 December 2001 and the state of financial affairs of the Group and the Company as at that date are set out in the financial statements on pages 37 to 39.

The Board of Directors has recommended to declare and distribute a final dividend of RMB0.02 to the shareholders of the Company recorded on the Company's share registrar on 22 April 2002.

Report of the Directors

Summary Financial Information

The following summary of the results and of the assets and liabilities of the Group is prepared on the basis set out in the note below. This summary is not part of the audited financial statements.

RESULTS

	Year ended 31 December			
	2001	2000	1999	1998
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover, net	105,755	106,166	108,041	49,494
Cost of Sales	(62,861)	(44,216)	(53,024)	(28,908)
Amortisation of intangible assets	(14,444)	(14,444)	(3,745)	(2,772)
Gross profit	28,450	47,506	51,272	17,814
Other revenue	2,813	4,512	1,235	679
Distribution costs	(5,444)	(4,068)	(2,924)	(1,794)
Administrative expenses	(4,228)	(2,943)	(3,748)	(3,521)
Other operating expenses	(969)	(3,007)	—	—
Profit from operations	20,622	42,000	45,835	13,178
Finance costs	(2,128)	(1,989)	(175)	(1,763)
Income from investments	—	705	—	1,650
Subsidy income	16,309	6,261	3,519	1,699
Profit before taxation	34,803	46,977	49,179	14,764
Income tax expenses	(6,149)	(8,497)	(7,798)	(2,313)
Profit after taxation	28,654	38,480	41,381	12,451
Minority interests	(67)	—	—	—
Profit attributable to the shareholders	28,587	38,480	41,381	12,451
Earnings per share	RMB0.045	RMB0.076	RMB0.082	RMB0.025

ASSETS AND LIABILITIES

Total assets	382,420	261,825
Total liabilities	54,564	77,277
Minority interests	1,067	—
Net asset value	326,789	184,548

Report of the Directors

Note:

The summary of the results and of the assets and liabilities of the Group for the three years ended 31 December 1998, 1999 and 2000 are extracted from the accountants' report included in the Prospectus. The summary of the results and the assets and liabilities of the Group for the year ended 31 December 2001 are extracted from the audited financial statements as set out on page 37 and page 39 of the financial statements.

Major Customers and Suppliers

In the year under review, sales to the Company's five largest customers accounted for 54.7% of the total sales for the year and sales to the largest customer included therein amounted to 17.7%. Purchases from the Group's five largest suppliers, including Sichuan Top Computer Company Limited (formerly known as Sichuan Top Electronics Technology Company Limited ("Top Computer")), accounted for 34.1% of the total purchases for the year and purchases from the largest supplier, Top Computer, included therein amounted to 16.3%.

Top Computer was 82% owned by Sichuan Top Software Company Limited ("Top Software") where Top Software was the controlling shareholder of the Company.

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

Fixed Assets

Details of movements in the fixed assets of the Group are set out in note 11 to the financial statements.

Subsidiaries

Details of the subsidiaries of the Company are set out in note 13 to the financial statements.

Borrowings

Details of the borrowings of the Group are set out in note 19 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 18 to the financial statements.

Distributable Reserves

As at 31 December 2001, the reserves of the Company available for distribution as dividends, calculated in accordance with the Hong Kong Statements of Standard Accounting Practice, amounted to RMB86,198,000.

Share Capital

Details of movements in the share capital of the Company, together with reasons therefor, are set out in note 17 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 2001, such fund was applied as follows:

- Approximately HK\$10,000,000 (estimated amount as stated in the Prospectus: approximately HK\$33,500,000) were used in IT solution development, R&D of new technologies and products, small scale of product testing and test production. The under utilisation is attributed to the Group's deferral of setting up technology and information centre in the USA;
- Approximately HK\$4,000,000 (estimated amount as stated in the Prospectus: approximately HK\$24,000,000) were used to promote the Company's new products through marketing activities (advertisement, exhibitions and other marketing and promotional activities). The under utilisation is attributed to the Group's decision to defer the promotion of brand image of TOP and the products through Hong Kong media; and
- Approximately HK\$1,000,000 (estimated amount as stated in the Prospectus: approximately HK\$2,000,000) were used to establish branch and representative office to promote the Company's products. The under utilisation is due to the adoption of a more conservative position and the slow down in payments.

Report of the Directors

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

Up to 31 December 2001, the Company has used approximately RMB15,000,000, being 14.2% of the net proceeds from the issue of H Shares. The remaining approximately RMB91,000,000 are deposited at the banks in the PRC and will be used to implement the Company's remaining business objectives.

Directors

The Directors of the Company during the year and up to the date of this report were:

Directors:

Li Zheng Bin

Li Yan⁽¹⁾

Yang Shu Cheng⁽²⁾

Ma Jun

Fan Jing Ru

Huang Wei Bin⁽²⁾

Chen Zhang Hao

Tang Hong Hu⁽³⁾

Independent Non-Executive Directors:

Yang Ji Ke

Li Ming Shu

Lin Wan Xiang

Notes:

1. Mr. Li Yan was appointed as Executive Director on 15 September 2001.
2. Such persons resigned their respective executive post in the Company on 19 March 2002 and continued to be the Non-executive Directors of the Company.
3. Mr. Tang Hong Hu resigned as executive Director of the Company on 28 July 2001.

Save for those stated above, all Directors were appointed on 8 March 2001. According to Article 97 of the Company's Articles of Association, directors shall be elected at the general meeting each for a term of three years. A director may serve consecutive terms if re-elected upon the expiration of the terms.

Biographical Details of the Directors, Supervisors and Senior Management

Biographical details of the Directors, Supervisors and Senior Management are set out in the section of “Profile of Directors, Supervisors and Senior Management” of this report.

Emoluments of Directors and Supervisors

Details of the emoluments of Directors and Supervisors of the Company are set out in note 8 of the financial statements.

Five Highest Paid Staff

Details of the five highest paid staff in the Company are set out in note 8 of 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 Mr. Li Yan whose service contract was entered into on 15 September 2001) for a term of three years, expiring on the date of the annual general meeting of that year.

Report of the Directors

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") which has direct or indirect interests in the following contracting parties. As such, Mr. Li Zheng Bin has certain direct or indirect interests in the following contracts of the Group:

Contracting party	Nature of the contract	Amount RMB'000
Top Computer	Sale of goods	974
	Purchase of contract materials	7,913
Top Software	Sale of goods	422
Chengdu Top Chang Zheng Network Company Limited ("Top Chang Zheng")	Sale of goods	367
	Purchase of contract materials	80
Zigong Top Computer Company Limited ("Zigong Top")	Sale of goods	698
Top Group Technology Development Company Limited (previously Sichuan Top Group Technology Development Company Limited)	Property leasing income	1,335
	Equipment leasing expenses	749
	Property leasing expenses	400
	Composite services expenses	1,453

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	Sale of goods	974
	Purchase of contract material	7,913
Top Software	Sale of goods	422
Top Chang Zheng	Sale of goods	367
	Purchase of contract material	80
Zigong Top	Sale of goods	698

Report of the Directors

Disclosure of the Directors' and Supervisors' Interests in the Issued Share Capital of the Company

As at 31 December 2001, the beneficial interests of the Directors and Supervisors and their respective associates in the share capital of the Company or any of its associated companies which, will be required pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") to be entered in the register referred to therein, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Notes:

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

Save as disclosed above, as at 31 December 2001, none of the Directors, Supervisors and their respective associates had any beneficial interests in the share capital of the Company or any of its associated companies as defined in the SDI Ordinance and to be recorded in the register required to be maintained pursuant to section 29 thereof or as otherwise notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules 5.40 to 5.59.

Directors' and Supervisors' Rights to purchase shares

During the year, none of the Directors or Supervisors was granted options to subscribe any types of shares of the Company. As at 31 December 2001, none of the Directors or Supervisors held any options to subscribe any types of the Company's shares.

Report of the Directors

Share Option Scheme

Up to 31 December 2001, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000.

Substantial Shareholders

As at 31 December 2001, so far as is known to the Company, the following persons were interested in 10% or more of the interests in the issued share capital of the Company, who should make disclosure in accordance with section 16(1) of the SDI Ordinance:

Name of shareholder	Number or attributable number of shares	Percentage or attributable percentage of holding
Top Development	344,500,000 ^{(1), (2)}	50.95%
Top Software	286,000,000 ^{(1), (3)}	42.30%
Labour Association of Top Development	344,500,000 ^{(1), (4)}	50.95%

Notes:

1. Such shares are domestic shares of the Company.
2. Top Development holds 5.77% direct interest in the Company. Top Development owns 34.96% of Top Software which owns 40.38% of the Company. Top Software owns 82% of Top Computer which owns 1.92% of the Company. Top Development owns 80% of Top Network which owns 1.92% of the Company. Top Development owns 60% of Tuoan Information which owns 0.96% of the Company.
3. Top Software owns 82% of Top Computer which owns 1.92% of the Company. Top Software'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 (1) above.

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

Purchase, Sale or Redemption of the Company's shares

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

Connected Transactions

Details of the transactions between the Group and its connected persons are set out in note 24 of 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 2001 to 31 December 2001, 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.

Arthur Andersen & Co, the Company's auditors, has 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 2001 to 31 December 2001, such transactions were conducted in accordance with the terms of the relevant agreements.

Housing and Retirement Schemes

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

Competing Interests

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

Sponsor's Interests

As at 31 December 2001, 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 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 or will receive sponsorship fees as being the retained sponsor of the Company for the period from 30 March 2001 to 31 March 2003.

Audit Committee

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

The audit committee comprises four members, three of them are independent non-executive Directors, namely Mr. Yang Ji Ke, Mr. Li Ming Shu, Mr. Lin Wan Xiang, and one executive Director, Mr Fan Jing Ru.

The audit committee held four meetings in 2001. At the first meeting, among others, Mr. Yang Ji Ke was elected the Chairman of the committee. At the second meeting, the first quarterly report was reviewed, the interim report was reviewed at the third meeting while at the fourth meeting, the third quarterly report was reviewed.

The audit committee has reviewed the Group's financial report for the year ended 31 December 2001 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.

Auditors

Arthur Andersen & Co has resigned and the resolution for re-appointing as the Company's auditors will be tabled before the forthcoming annual general meeting.

By Order of the Board

Li Zheng Bin

Chairman

Chengdu, PRC

19 March 2002

Report of the Supervisors

The new session of the Supervisory Committee began to discharge its duties on 8 March 2001. The committee held five meetings in 2001. At the first meeting, among others, the Chairman was elected. At the second meeting, the committee reviewed the first quarterly report. At the third meeting, the committee reviewed the interim report. At the fourth meeting, the Committee reviewed the procedure for appointing Mr. Li Yan as its executive Director and Mr. Li's qualifications. The committee reviewed the third quarterly report at the fifth meeting.

In compliance with the Company Law of the PRC, the relevant laws and regulations of Hong Kong and the Company's articles of association, the five-member committee earnestly discharged its statutory supervisory duties, safeguarding the lawful interests of the shareholders and the Company. The main tasks of the committee in 2001 included, among others, attending Board meetings; advising on important issues such as the Company's project development, and investment decisions; attending the extraordinary general meeting at which Mr. Li Yan was appointed executive Director of the Company; participating in major functions of the Company; and through other means, understanding and monitoring the conduct of the Directors and Senior Management in business management and daily operations; and carefully reviewing the financial position of the Company, discussing and reviewing the financial statements and dividend distribution proposal to be submitted by the Board to the annual general meeting.

The committee concludes that the Directors and Senior Management of the Company have been proactive and enthusiastic in 2001. They continued to achieve excellent operating results, providing good returns to shareholders, succeeding in listing on the GEM of the Hong Kong Stock Exchange Limited and establishing and safeguarding a superior corporate image in the overseas capital markets.

The committee has examined the financial statements of the Company for 2001 prepared to be submitted by the Board to the annual general meeting, and concluded that the statements accurately reflected the Company's operating results and asset position in 2001 and were in compliance with relevant laws and regulations and the Company's Articles of Association. The dividend distribution proposal for 2001 gives cash returns to shareholders. Consequently, we endorsed this dividend distribution proposal, and recommended shareholders to approve the proposal at the forthcoming annual general meeting.

Report of the Supervisors

The committee reviewed the Report of the Directors to be submitted to the annual general meeting, and considered it to be a fair representation of the Company's actual situation. In the course of the Company's business operations, the members of the Board and Senior Management of the Company observed their fiduciary duties and worked diligently while exercising their rights or discharging their duties. We did not find any abuse of power or infringement of the interests of shareholders and employees.

The Committee is satisfied with the accomplishments attained by the Company in its various tasks.

By the Order of the Supervisory Committee

Chen Bao Yu

Chairman of the Supervisory Committee

19 March 2002

Profile of Directors, Supervisors and Senior Management

The following sets out the profile of the Directors, Supervisors and senior management of the Company:

Executive Directors

Mr. Li Zheng Bin (李正彬), aged 34. Mr. Li is the chairman of board of Directors. He graduated with a bachelor degree in industrial management engineering from Beijing Polytechnic University. Mr. Li is also a system analyst. He is mainly in charge of the strategic planning and business development of the Company. He joined the Company on 10 February 1993 and was the vice-chairman of the Board of Directors and general manager of the Company. Mr. Li is also a Director of Top Software and holds 1.58% interests of Top Development.

Mr. Li Yan (李彦), aged 47. Dr. Li is the chief executive officer of the Company. He holds a doctorate degree of the University of Liverpool John Moores and a post-doctorate degree of Cardiff University and was a research associate of Cambridge University, United Kingdom. Dr. Li joined the Company on 23 May 2001. Before joining the Company, Dr. Li participated in the researches on science technology in the PRC and has worked on the research work of Engineering Physical Science Research Council (EPSRC) and European Union for 15 years. Dr. Li is also members of Institute of Electrical and Electronics Engineers (IEEE) and American Society of Mechanical Engineers (ASME).

Ms. Ma Jun (馬君), aged 37. Ms. Ma is the executive vice president of the Company. She graduated with a bachelor degree in medical management from Luzhou Medical College. Ms. Ma is also an economist. Ms. Ma joined the Company on 14 February 1997 and was officer of the president office, chief supervisor of project department, chief supervisor of the development department and deputy manager of the Company.

Mr. Fan Jing Ru (范靜如), aged 38. Mr. Fan is a vice president of the Company. He graduated with a bachelor degree in accounting from Central Finance University. He is also an accountant and economist of corporate finance. Mr. Fan joined the Company on 1 July 1998. He was the section manager of the Shanxi office of the supervision department of the State Ministry of Finance before joining the Company.

Mr. Chen Zhong Hao (陳中浩), aged 33. Mr. Chen is an assistant vice president of the Company. He graduated with a bachelor degree in electronic engineering from Electronic Technology University. Mr. Chen is also an engineer. Mr Chen joined the Company on 23 March 1994. He mainly focuses on product R&D, engineering and technology management and takes part in the R&D of the Company's patents and proprietary technology. Mr. Chen was the officer of the section of technological application development and officer of the display technology laboratory of the Company's research institution.

Non-executive Directors

Mr. Yang Shu Cheng (楊樹成), aged 31. Mr. Yang graduated with a bachelor degree in silk engineering from Suzhou Silk Engineering College. He is also an engineer. Mr. Yang joined the Company on 11 March 1996. Formerly, he was the president of the Company, sales manager, chief supervisor of the marketing department and deputy manager of the Company's regional branches.

Mr. Huang Wei Bin (黃維斌), aged 34. Mr. Huang graduated with a master degree in air motion engineering in Beijing Air Aviation University. He is also a system analyst. Mr. Huang joined the Company on 17 May 1995. Mr Huang was one of the senior researchers of the State Ninth Five-Year Plan Major Technological Project the Key Technology and Application of the Property Taxation Integrated Framework Project. Formerly, he was a vice president of the Company, director of the software project center, director of the computer application laboratory, chief supervisor of the Golden Tax business department and the assistant general manager of the Company.

Independent Non-executive Directors

Professor Yang Ji Ke (楊紀珂), aged 81. In 1944, he graduated from Jiaotong University in Tangshan. In 1948, he graduated from Ohio State University with master's degree. In 1955, he returned to China, and has been associate researcher of China Science Academy Chemical Metallurgy Institute and Biological Physics Institute, professor of Chin Science and Technology University, vice governor of Anhui Province, standing committee member of National People's Congress, vice director of National People's Congress Environmental Resource Protection Committee, central standing vice chairman Chinese Zhigong Party, general-director of China Energy Research Association, vice president of China Quality Management Associaton, vice president of China Quality Management Association, vice president of China Statistics Institute. Professor Yang is current a member of the standing committee of Chinese People's Political Consultative Conference, vice director of CPPCC Population Environment Resource Committee, part-time professor of Qinghua University 21st Century Research Institute, and head of Beijing Tianheng Sustainable Development & Research Institute. Professor Yang joined the Company on 1 October 2000.

Profile of Directors, Supervisors and Senior Management

Mr. Li Ming Shu (李明樹), aged 36. He graduated in June 1993 from Harbin Industrial University with doctor's degree in computer engineering. In March 1995 he obtained master's degree in economics. He is now a researcher, Ph.D. student tutor and superintendent of Chinese Science Academy Software Research Institute, programming expert of national hi-tech intelligent computing system, chairman of China Youth Computer Scientists and Engineers Forum. He is also a commissioner of the National Youth League, assistant to head of 863-306 project expert group, standing director of China Computer Institute, director of Youth Working Committee, and chairman of YOCSEF Academic Committee. His major research fields are: special requirement software engineering and component-based software technology; interspersed objective technology; real-time system and embedded operating system; internet/web technology application; software quality and SE standards; intelligent factor and multi-factor system. He has been a visiting professor to Edinburgh University of England, Paraiba University of Brazil, Deakin University, and University of South Australia. He has completed and is organizing many national or ministry scientific research and engineering application projects, and has published over 80 academic papers at home and abroad. He joined the Company on 1 October 2000.

Professor Lin Wan Xiang (林萬祥), aged 64, Ph.D. mentor. Professor Lin graduated from the Faculty of Accounting in the Sichuan University of Finance and Economics, and is currently the Head of the Modern Accounting Research Institute of the South West Finance University, Director of CPA Education Centre, member of the Accounting Association of the PRC, member of the China Costing Research Institute, Deputy Chairman of the Accounting Association of Sichuan, member of the standing committee of the China Accounting Professor Association and China Financial Accounting. Professor Lin was approved for qualification of enjoying government special bonus by the State Council in 1996. Professor Lin published 18 books viz. "Accounting on Government and Enterprises", "Appraisal on Investment Projects" etc., and over 80 articles on academic thesis, amongst which over 20 academic researches were awarded with Excellent Scientific Researches by the Provincial Philosophy Social Science, China Association of Finance, Sichuan Accounting Association, Chengdu Science Association, also numerous academic excellent tutorship awards. Professor Lin joined the Company on 1 October 2000.

Supervisors

Mr. Chen Bao Yu (陳寶玉), aged 33. He is the chairman of the supervisory committee of the Company. He graduated with a bachelor degree in Electronic Instrument Engineering from Electronic Technology University. He is also an engineer. Mr. Chen joined the Company on 1 October 1992. He was the sales manager of the Company's Chengdu office and Shenzhen office, manager of the department of information system business and assistant general manager of the Company.

Profile of Directors, Supervisors and Senior Management

Mr. Yu Bing (喻兵), aged 32. Mr. Yu is an officer of the office of construction system software products development of the Company. He graduated with a bachelor degree in Industry and Business Management Engineering from Chengdu University. He is also a system analyst. Mr. Yu joined the company on 3 March 1997, and was the senior programmer of the software laboratory and software application laboratory.

Mr. Wang Hua (王華), aged 30. Mr. Wang has completed post-secondary education and is an engineer. HE joined the Company on 11 February 1995. Formerly, he was an assistant vice president of the Company, manager of the department of display system business, supervisor of the department of system integration, general manager of the sales department of the Company's Chongqing office.

Mr. Hu Yun Xu (胡雲旭), aged 36. Mr. Hu graduated with a bachelor degree in computer and application from Xian Industry Institute. He is also a system analyst. Mr Hu joined the Company on 20 September 1995. He has taken part in the designing and project implementations of Top Taxation Software (DOS version) V3.0 - V7.0 and TS'98 Taxation Software. Formerly, he was an officer of the office of taxation system software products development of the Company, chief supervisor of the quality control center of the department of development and production, and an assistant supervisor of the Golden Tax business department.

Mr. Wang Hua Kun (王華昆), aged 34. He graduated with a bachelor degree in law from Southwest Political and Legal University. He is a PRC lawyer. Mr. Wang joined the Company on 7 February 1996 and is also a supervisor of Top Software.

Senior Management

Mr. Tang Hong Hu (湯鴻鵠), aged 34. Mr. Tang graduated with a bachelor degree in electromagnetic measurement and instrument engineering from Harbin Electronic Engineering College. Mr. Tang is also an engineer. He joined the Company on 1 May 1994 as a sales manager. He mainly focuses on the sales and promotion of the system software. Formerly, Mr. Tang was a Director and an officer of the office of the Board of Directors of the Company.

Mr. Zhou Xiao Jia (周小佳), aged 32. Mr. Zhou is the chief technician and is in charge of the technology center of the Company. He holds a Ph.D degree in electricity system and automation from Chongxing University. Mr. Zhou joined the Company on 2 March 1999. He was the officer of the technology strategy research center of the Company.

Mr. Wu Guang Ning (吳廣寧), aged 33. Mr. Wu is a deputy CEO of the Company. He holds a PhD and post-doctorate degree from Korea Yuen Kwong University. Mr. Wu joined the Company on 29 May 1999. He was the officer of the overseas project development center of the Company, and a representative of the Company in the development of the Company's three-color monitor and outdoor full-color monitor.

Profile of Directors, Supervisors and Senior Management

Mr. Liu Kam Lung (廖金龍), aged 38, Financial Controller, is also the company secretary, qualified accountant and authorised representative of the Company and is responsible for the financial and accounting management and secretarial affairs of the Company. He graduated from the Hong Kong Shu Yan College with a diploma in business administration and is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants, United Kingdom. He is also an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators, United Kingdom. Before joining the Company on 23 November 2000, he worked as an audit manager in an international accounting firm.

Ms. Ye Qin (葉芹), aged 33. Ms. Ye is the head of finance department of the Company. Ms. Ye graduated with a bachelor degree in Accounting from Southwest Finance and Economics University. Ms. Ye is also an accountant. Ms. Ye joined the Company on 11 March 1996. She was the manager of the finance department of the Company.

Legal Address

Tu Qiao Industrial Development Zone
Jin Niu District
Chengdu
PRC

Principal Place of Business in the PRC

55 Jin Xian Qiao Street
Chengdu
PRC

Principal Place of Business in Hong Kong

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

Company Homepage/Website

<http://www.topsci-tech.com>

Principal Banker

The Industrial and Commercial
Bank of China
Chengdu branch
Binjiang Sub-branch

Hong Kong Share Registrar and Transfer Office

Hong Kong Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Stock Code

8135

Audit Committee

Yang Ji Ke (*Chairman*)
Li Ming Shu
Lin Wan Xiang
Fan Jing Ru CICPA (PRC)

Authorised Representatives

Fan Jing Ru CICPA (PRC)
Liu Kam Lung AHKSA, FCCA, ACS, ACIS

Company Secretary

Liu Kam Lung AHKSA, FCCA, ACS, ACIS

Qualified Accountant

Liu Kam Lung AHKSA, FCCA, ACS, ACIS

Compliance Officer

Fan Jing Ru CICPA (PRC)

Auditors

Arthur Andersen & Co
Certified Public Accountants

Legal Advisors

Hong Kong law:
Herbert Smith

PRC law:
G.T. Law Office

Sponsor

Core Pacific-Yamaichi Capital Limited

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (“AGM”) of Chengdu Top Sci-Tech Company Limited (“the Company”) will be held at Xiruan, Top Road, Hong Guang Zhen, Pi County, Chengdu, the People’s Republic of China on Tuesday, 14 May 2002 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

1. To consider and approve the report of the Directors for the year 2001.
2. To consider and approve the report of the Supervisory Committee for the year 2001.
3. To consider and approve the auditors’ report and financial statements of the Group for the year 2001.
4. To consider and approve the dividend distribution plan of the Company for the year 2001.
5. To consider and approve the re-appointment of Arthur Andersen & Co as the auditors of the Company and to authorise the Board of Directors to determine their remuneration.
6. To authorise the Board of Directors to determine the directors’ remuneration for year 2002.
7. To authorise the Board of Directors to determine the supervisors’ remuneration for year 2002.
8. To approve and authorise the Company to continue to conduct the transaction according to the Construction Contractor Agreement entered into between the Company and Sichuan Top Sci-Tech Development Company on 8 March 2001 (details of which have been set out on page 103 of the prospectus of the Company issued on 26 March 2001).

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

9. To approve and authorise the Company to continue to conduct the transaction pursuant to the Contract Materials Supply Agreement entered into between the Company and Sichuan Top Computer Company Limited (previously known as Sichuan Top Electronics Technology Company Limited) on 8 March 2001 (details of which have been set out on page 105 of the prospectus of the Company issued on 26 March 2001).

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

By order of the Board

Li Zheng Bin
Chairman

Chengdu, PRC
28 March 2002

Notice of Annual General Meeting

Notes:

1. Eligibility for attending the Annual General Meeting and receiving final dividend

Holders of the Company's H Shares whose names appear on the Register of Members maintained by Hong Kong Registrars Limited and holders of domestic shares whose names appear on the domestic shares register maintained by the Company at the close of business on 22 April 2002 are eligible to attend the Annual General Meeting and receive the final dividend for year ended 31 December 2001.

2. Proxy

- (i) A member eligible to attend and vote at the Annual General Meeting is entitled to appoint, in written form, one or more proxies to attend and vote on behalf of him. A proxy need not be a shareholder.
- (ii) A proxy should be appointed by a written instrument signed by the appointor or its attorney duly authorised in writing. If the form of proxy is signed by the attorney of the appointor, the power of attorney authorising that attorney to sign or other authorisation document(s) shall be notarised.
- (iii) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed form of proxy must be delivered, in the case of holders of domestic shares, to the Company and, in the case of holders of H Shares, to Hong Kong Registrars Limited, not less than 24 hours before the time designated for holding of the Annual General Meeting.
- (iv) A proxy may exercise the right to vote by a show of hands or by poll. However, if more than one proxy is appointed by a shareholder, such proxies shall only exercise the right to vote by poll.

3. Registration procedures for attending the Annual General Meeting

- (i) A shareholder or his proxy shall produce proof of identity when attending the meeting. If a shareholder is a legal person, its legal representative or other persons authorised by the board of directors or other governing body of such shareholder may attend the Annual General Meeting by producing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such persons to attend the meeting.
- (ii) Holders of H Shares and domestic shares intending to attend the Annual General Meeting should return the reply slip for attending the Annual General Meeting to the Company on or before 23 April 2002.
- (iii) Shareholders may send the above reply slip to the Company (Attention: Office of the Board) in person, by post or by fax.

Notice of Annual General Meeting

4. Closure of Register of Members

The register of members of the Company will be closed from 14 April 2002 to 13 May 2002 (both days inclusive).

5. Other Businesses

(i) The Annual General Meeting will not last for more than one day. Shareholders who attend shall bear their own travelling and accommodation expenses.

(ii) The address of the Share Registrar for H Shares of the Company, Hong Kong Registrars Limited, is at:

2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

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

Tu Qiao Industrial Development Zone
Jin Niu District
Chengdu
The People's Republic of China

Telephone No. : (86) 28-7673172

Facsimile No. : (86) 28-7689440

Report of the Auditors

Auditors' Report to the Shareholders of

CHENGDU TOP SCI-TECH COMPANY LIMITED

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

We have audited the financial statements on pages 37 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2001 and of the profit and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Arthur Andersen & Co

Certified Public Accountants

Hong Kong, the People's Republic of China

19 March 2002

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB"))

	Note	2001 RMB'000	2000 RMB'000 (Note 29)
Turnover, net	24	105,755	106,166
Cost of sales	24	(62,861)	(44,216)
Amortisation of intangible assets	12	(14,444)	(14,444)
Gross profit		28,450	47,506
Other revenue	3,24	2,813	4,512
Distribution costs		(5,444)	(4,068)
Administrative expenses	24	(4,228)	(2,943)
Other operating expenses		(969)	(3,007)
Profit from operations		20,622	42,000
Finance costs		(2,128)	(1,989)
Income from investments		—	705
Subsidy income	4	16,309	6,261
Profit before tax	5	34,803	46,977
Income tax expenses	7	(6,149)	(8,497)
Profit after tax		28,654	38,480
Minority interests		(67)	—
Net profit for the year		28,587	38,480
Earnings per share	10		
— Basic		RMB0.045	RMB0.076
— Diluted		Not applicable	Not applicable

The accompanying notes are an integral part of these consolidated financial statements.

Balance Sheets

AS AT 31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB"))

	Note	Group		Company	
		2001 RMB'000	2000 RMB'000 (Note 29)	2001 RMB'000	2000 RMB'000 (Note 29)
ASSETS					
Non-Current Assets					
Fixed assets, net	11	85,297	87,337	85,297	87,337
Intangible assets, net	12	68,839	83,283	68,839	83,283
Investments in subsidiaries	13	—	—	19,000	—
Investment securities	14	9,050	9,050	9,050	9,050
		<u>163,186</u>	<u>179,670</u>	<u>182,186</u>	<u>179,670</u>
Current assets					
Inventories, net	15	17,060	8,559	14,353	8,559
Trade receivables, net	16	23,179	20,799	21,135	20,799
Prepayment and other receivables		14,163	13,069	7,540	13,069
Due from related parties	24	13,011	136	6,748	136
Cash and cash equivalents	23(b)	151,821	39,592	146,997	39,592
		<u>219,234</u>	<u>82,155</u>	<u>196,773</u>	<u>82,155</u>
Total assets		<u>382,420</u>	<u>261,825</u>	<u>378,959</u>	<u>261,825</u>
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	17	67,600	50,700	67,600	50,700
Reserves	18	259,189	133,848	257,916	133,848
		<u>326,789</u>	<u>184,548</u>	<u>325,516</u>	<u>184,548</u>
Minority interests		<u>1,067</u>	—	—	—

Balance Sheets

AS AT 31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB"))

	Note	Group		Company	
		2001 RMB'000	2000 RMB'000 (Note 29)	2001 RMB'000	2000 RMB'000 (Note 29)
Current liabilities					
Long-term borrowings, repayable within one year	19	30,000	30,000	30,000	30,000
Trade payables	20	8,878	7,239	8,610	7,239
Other payables and accruals		8,165	17,429	8,145	17,429
Taxes payable		3,381	16,663	2,559	16,663
Provision for warranty	21	733	680	733	680
Due to related parties	24	3,407	5,266	3,396	5,266
		<u>54,564</u>	<u>77,277</u>	<u>53,443</u>	<u>77,277</u>
Total equity and liabilities		<u>382,420</u>	<u>261,825</u>	<u>378,959</u>	<u>261,825</u>

Approved by the Board of Directors on 19 March 2002 and signed on behalf of the Board by:

LI ZHENG BIN

Chairman

FAN JING RU

Director

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Recognised Gains and Losses

FOR THE YEAR ENDED 31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB"))

	2001 RMB'000	2000 RMB'000 (Note 29)
Net gains not recognised in the consolidated income statement		
- Surplus on revaluation of properties	—	39,485
Net profit for the year	<u>28,587</u>	<u>38,480</u>
Total recognised gains	<u><u>28,587</u></u>	<u><u>77,965</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB"))

	Note	2001 RMB'000	2000 RMB'000 (Note 29)
Net cash inflow from operations	23(a)	11,904	29,829
Returns on investments and servicing of finance			
Interest received		908	93
Interest paid		(2,128)	(1,989)
Dividends received		705	—
Dividends paid		—	(1,755)
		(515)	(3,651)
Taxation			
Income tax paid		(13,685)	(7,373)
Investing activities			
Purchase of fixed assets		(129)	(16,489)
Proceeds from disposals of fixed assets		—	4,371
Increase in investment securities		—	(2,000)
		(129)	(14,118)
Net cash (outflow) inflow before financing		(2,425)	4,687
Financing			
Net proceeds from issue of share capital		113,654	—
New unsecured loans repayable within five years		30,000	30,000
Repayment of loans payable		(30,000)	—
Capital injection by minority shareholders		1,000	—
		114,654	30,000
Increase in cash and cash equivalents		112,229	34,687
Cash and cash equivalents, beginning of year		39,592	4,905
Cash and cash equivalents, end of year	23(b)	151,821	39,592

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("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 are provision of system solution services and other value added services such as technology consultancy, after-sales support and training services. The Company is also engaged in research, development, production and distribution of information technology solutions for government administration systems.

In the opinion of the directors, as at 31 December 2001, the ultimate parent company of the Company was Sichuan Top Sci-Tech Development Company ("Top Development") incorporated in the PRC.

The Company and its subsidiaries are collectively referred to as the "Group". The average number of employees in the Group was 290 in 2001 (2000: 256). 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. Principal accounting policies

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The principal accounting policies adopted in preparing financial statements of the Company and of the Group are as follows:

(a) *Basis of presentation*

The financial statements have been prepared on the historical cost convention as modified by stating certain fixed assets at revalued amount as explained in Note 2(d) below.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(b) Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP9 (revised)	Event after the balance sheet date
SSAP14 (revised)	Leases
SSAP17 (revised)	Property, plant and equipment
SSAP28	Provisions, contingent liabilities and contingent assets
SSAP29	Intangible assets
SSAP31	Impairment of assets
SSAP32	Consolidated financial statements and accounting for investments in subsidiaries

Other than those disclosed in the respective notes to the financial statements, the Group considers that the consequential changes made to the above SSAPs will not have material impact on the financial statements of the Group.

(c) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(d) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

Land use rights and buildings are carried at revalued amounts. Professional valuations are performed periodically with the last valuation performed on 31 December 2000. In the 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 property revaluation reserve; any decrease is first offset against an increase in earlier valuation in respect of the same property and is thereafter charged to the income statement.

Depreciation is calculated using the straight-line basis at annual rates estimated to write off the cost or valuation, after taking into account the estimated residual value, of each asset over its expected useful life. The estimated useful lives are as follows:

Land use rights	50 years
Buildings	30-40 years
Other equipment	5-8 years

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their costs and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(e) *Construction-in-progress*

Construction-in-progress represents plant and properties under construction and machinery and equipment under installation and testing, and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

(f) *Investment securities*

Investment securities are equity securities intended to be held for an identified long term purpose on a continuing basis and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of investment securities are reversed to the income statement 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.

Upon disposal or transfer of the investment securities, any profit and loss thereon is accounted for in the income statement.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(g) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

Internally generated intangible assets are charged against income in the period incurred except for development costs, which comply with the following criteria:

- the product or process is clearly defined and the costs are separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year end. The estimated useful lives are as follows:

Software copyrights	5 years
Patent	6.5 years
Proprietary technology	5 years

2. Principal accounting policies (continued)

(h) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period, in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade receivables

Trade receivables are stated at their cost, after provision for doubtful accounts.

(j) Cash and cash equivalents

Cash represents cash on hand and deposits with banks or other financial institutions, which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(k) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The Group and the Company present assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the income statement in the period in which they are incurred.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(l) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(m) Turnover and revenue recognition

Turnover comprises the net invoiced value (excluding value-added tax ("VAT") and business tax ("BT")) of goods sold after allowances for returns and discounts.

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

(i) Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the assets.

(iii) Subsidy income

Subsidy income is recognised on cash basis. Please refer to Note 4 for details.

(iv) Income from investment

Income from investment is accounted for to the extent of dividends received and receivable.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(n) Taxation

Individual companies within the Group provide for income tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or asset will crystallize.

(o) Foreign currency transactions

The Company and its subsidiaries maintain their books and accounting records in RMB. Transactions in other currencies during the year are translated into RMB at the exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at the exchange rates prevailing at that date. All exchange differences are included in the income statement in the period in which they arise.

(p) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the property that necessarily takes a substantial period of time to prepare for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

2. Principal accounting policies (continued)

(q) Impairment of assets

Fixed assets, intangible assets and investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income statement for items of fixed assets, intangible assets and investments in subsidiaries carried at cost and treated as a revaluation decrease for land use rights and buildings that are carried at revalued amounts to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same land use rights and building. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase.

(r) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(s) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed when material.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. Principal accounting policies (continued)

(t) Use of estimates

The preparation of financial statements in conformity HK GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Other revenue

	2001 RMB'000	2000 RMB'000
Rental income	1,427	1,447
Interest income from bank deposits	908	93
Others	478	2,972
	<u>2,813</u>	<u>4,512</u>

4. Subsidy income

	2001 RMB'000	2000 RMB'000
Financial refund (a)	6,216	6,261
Tax refund (b)	10,093	—
	<u>16,309</u>	<u>6,261</u>

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

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

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

5. Profit before tax

Profit before tax was determined after crediting or charging the following:

	2001	2000
	RMB'000	RMB'000
Crediting:		
Rental income	1,427	1,447
Dividend income on investment securities	—	705
Interest income from bank deposits	908	93
Gain on disposals of fixed assets	—	140
Write-back of provision for doubtful debts	1,372	154
	<u> </u>	<u> </u>
Charging:		
Auditors' remuneration	850	100
Directors' and supervisors' emoluments	688	540
Staff costs (excluding directors and supervisors)		
— salaries, bonus and wages	6,337	4,292
— provision for staff welfare fund	917	601
Depreciation on fixed assets	2,169	989
Cost of inventories	38,903	27,364
Operating leases	1,526	661
Interest expense	2,128	1,989
Provision for inventory obsolescence	1,233	—
	<u> </u>	<u> </u>

6. Profit attributable to shareholders

During the year ended 31 December 2001, the consolidated profit attributable to shareholders included a profit of approximately RMB28,587,000 (2000: RMB38,480,000) which has been dealt with in the accounts of the Company.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. Taxation

(a) EIT

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

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 subject to Hong Kong profits tax.

	2001 RMB'000	2000 RMB'000
Current taxation	6,166	8,758
Write-back of deferred taxation	(17)	(261)
	<u>6,149</u>	<u>8,497</u>

(b) VAT

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

The Company is entitled to a reduced VAT rate of 3% for the sales of certain approved software products (Note 4(b)).

(c) 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.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. Taxation (continued)

(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.

8. Directors', supervisors' and five highest paid individuals' emoluments

(a) Details of emoluments paid to directors and supervisors of the Group were as follows:

	2001 RMB'000	2000 RMB'000
Fees	—	—
Other emoluments		
— basic salaries and allowances	472	540
— bonuses	216	—
	<u>688</u>	<u>540</u>
Number of directors and supervisors	<u>16</u>	<u>15</u>

During the year, one director resigned from the board and another director has been appointed.

All of the directors' and supervisors' emoluments are within the band of nil to RMB1,000,000 during the year.

No directors or supervisors waived any emolument during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director/supervisor for the year.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

8. Directors', supervisors' and five highest paid individuals' emoluments (continued)

(b) Details of emoluments of the five highest paid individuals were as follows:

	2001 RMB'000	2000 RMB'000
Basic salaries and allowances, and other benefits	<u>901</u>	<u>250</u>
Number of directors	2	1
Number of employees	<u>3</u>	<u>4</u>
	<u>5</u>	<u>5</u>

The emoluments of the five highest paid individuals are within the band of Nil to RMB1,000,000 during the year.

During the year, no emoluments were paid to the five highest paid individuals (including directors, supervisors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

9. Dividends

	2001 RMB'000	2000 RMB'000
Dividends proposed after year end (Note 28)	<u>13,520</u>	<u>—</u>

10. Earnings per share

The calculation of basic earnings per share is based on the net profit for the year attributable to shareholders of RMB28,587,000 (2000: RMB38,480,000), divided by the weighted average number of shares outstanding during the year of 635,254,794 shares (2000: 507,000,000 shares).

No diluted earnings per share was calculated as there were no potentially dilutive equities outstanding.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

11. Fixed assets

Movements in fixed assets of the Group and the Company were:

	2001			2000	
	Buildings RMB'000	Land use rights RMB'000	Other equipment RMB'000	Total RMB'000	Total RMB'000
Cost or valuation					
Beginning of year	45,079	41,010	3,055	89,144	37,552
Revaluations	—	—	—	—	39,485
Additions	11	—	118	129	16,489
Disposals	—	—	—	—	(4,382)
End of year	<u>45,090</u>	<u>41,010</u>	<u>3,173</u>	<u>89,273</u>	<u>89,144</u>
Representing:					
At cost	11	—	3,173	3,184	3,055
At valuation	<u>45,079</u>	<u>41,010</u>	<u>—</u>	<u>86,089</u>	<u>86,089</u>
	<u>45,090</u>	<u>41,010</u>	<u>3,173</u>	<u>89,273</u>	<u>89,144</u>
Accumulated depreciation					
Beginning of year	1,060	210	537	1,807	969
Charge for the year	1,091	841	237	2,169	989
Disposals	—	—	—	—	(151)
End of year	<u>2,151</u>	<u>1,051</u>	<u>774</u>	<u>3,976</u>	<u>1,807</u>
Net book value					
End of year	<u>42,939</u>	<u>39,959</u>	<u>2,399</u>	<u>85,297</u>	<u>87,337</u>
Beginning of year	<u>44,019</u>	<u>40,800</u>	<u>2,518</u>	<u>87,337</u>	<u>36,583</u>

The directors are of opinion that the underlying value of fixed assets was not less than their carrying value as at 31 December 2001.

The Group's buildings and land use rights as at 31 December 2000 were appraised by Sallmanns (Far East) Limited, independent professional valuers, on 26 March 2001. These properties were appraised on an open market basis and are carried in the balance sheet at market value. As a result of the appraisal, an increase in value of the Group's buildings and land use rights of approximately RMB39,485,000 as at 31 December 2000 was credited to the revaluation surplus.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

11. Fixed assets (continued)

As at year end, the amounts of fixed assets that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation are as follows:

	Group and Company	
	2001	2000
	RMB'000	RMB'000
Buildings	37,605	38,544
Land use rights	6,650	6,790
	<u> </u>	<u> </u>

12. Intangible assets

Movements in intangible assets of the Group and the Company were:

	2001			2000	
	Software copyrights	Proprietary Patent	Proprietary technology	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
Beginning of year	88,357	8,778	7,110	104,245	104,245
Additions	—	—	—	—	—
End of year	<u>88,357</u>	<u>8,778</u>	<u>7,110</u>	<u>104,245</u>	<u>104,245</u>
Accumulated amortisation					
Beginning of year	12,645	4,051	4,266	20,962	6,518
Provision for the year	11,671	1,351	1,422	14,444	14,444
End of year	<u>24,316</u>	<u>5,402</u>	<u>5,688</u>	<u>35,406</u>	<u>20,962</u>
Net book value					
End of year	<u>64,041</u>	<u>3,376</u>	<u>1,422</u>	<u>68,839</u>	<u>83,283</u>
Beginning of year	<u>75,712</u>	<u>4,727</u>	<u>2,844</u>	<u>83,283</u>	<u>97,727</u>

The directors are of opinion that the underlying value of the intangible asset was not less than its carrying value as at 31 December 2001.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

12. Intangible assets (continued)

In 1999, pursuant to an agreement signed between the Company and Top Group Sci-Tech Development Company Limited (previously known as "Sichuan Top Group Sci-Tech Development Company Limited", collectively referred to "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.

13. Investments in subsidiaries

As at 31 December 2001, the Company had the following subsidiaries:

Company name	Place of incorporation and operations	Paid-up capital RMB'000	Percentage of equity interest attributable to the Group	Principal activities
Chengdu Top Huaxi Information System Co., Ltd.	PRC	10,000	95%	Same as those of the Company
Chengdu Top Huaxi Electronics Technology Co., Ltd.	PRC	10,000	95%	Same as those of the Company

The directors are of opinion that the underlying value of the subsidiaries is not less than the carrying amount of the subsidiaries at 31 December 2001.

14. Investment securities

Investments in equity securities represented investments in unlisted companies incorporated in the PRC and are stated at cost. The directors are of opinion that there was no diminution in value of such investments as at 31 December 2001.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

15. Inventories

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Work-in-progress on contracts	14,132	6,103	14,067	6,103
Merchandise goods for sale	4,302	2,597	1,659	2,597
	<u>18,434</u>	<u>8,700</u>	<u>15,726</u>	<u>8,700</u>
Less: provision for obsolescence	(1,374)	(141)	(1,373)	(141)
	<u>17,060</u>	<u>8,559</u>	<u>14,353</u>	<u>8,559</u>

16. Trade receivables

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Accounts receivable	35,411	35,257	33,260	35,257
Less: provision for doubtful debts	(12,232)	(14,458)	(12,125)	(14,458)
	<u>23,179</u>	<u>20,799</u>	<u>21,135</u>	<u>20,799</u>

An aging analysis of accounts receivable is set out below:

	Group	
	2001 RMB'000	2000 RMB'000
Not exceeding one year	19,527	20,822
More than one year but not exceeding two years	6,212	3,804
More than two years but not exceeding three years	2,436	2,881
More than three years	7,236	7,750
	<u>35,411</u>	<u>35,257</u>
Less: Provision for doubtful debts	(12,232)	(14,458)
	<u>23,179</u>	<u>20,799</u>

The normal credit period granted by the Group is on average 120 days from the date of invoice.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17. Share capital

As at 31 December 2001, the details of the Company's share capital were as follows:

	Number of shares		Amount	
	2001 '000	2000 '000	2001 RMB'000	2000 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 RMB0.1 each	169,000	—	16,900	—
	<u>676,000</u>	<u>507,000</u>	<u>67,600</u>	<u>50,700</u>

On 30 March 2001, 169,000,000 H shares with par value of RMB0.1 each were issued at Hong Kong dollar ("HKD") 0.72, equivalent to RMB0.77.

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

	Number of shares		Amount	
	2001 '000	2000 '000	2001 RMB'000	2000 RMB'000
Balance, beginning of year	507,000	253,500	50,700	25,350
Share capital issued during the year	169,000	—	16,900	—
Share capital transferred from reserves during the year	—	253,500	—	25,350
	<u>676,000</u>	<u>507,000</u>	<u>67,600</u>	<u>50,700</u>

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

18. Reserves

	2001						2000	
	Capital surplus	Revaluation surplus	Statutory surplus reserve	Statutory public		Retained earnings	Total	Total
				welfare fund	Discretionary surplus reserve			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group								
Beginning of year	(347)	39,485	13,522	7,936	10,220	63,032	133,848	81,233
Surplus on revaluation of properties	—	—	—	—	—	—	—	39,485
Net profit for the year	—	—	—	—	—	28,587	28,587	38,480
Issue of capital	96,754	—	—	—	—	—	96,754	—
Transfer to reserves	—	—	3,614	1,807	—	(5,421)	—	—
Transfer to share capital	—	—	—	—	—	—	—	(25,350)
End of year	<u>96,407</u>	<u>39,485</u>	<u>17,136</u>	<u>9,743</u>	<u>10,220</u>	<u>86,198</u>	<u>259,189</u>	<u>133,848</u>
Company								
Beginning of year	(347)	39,485	13,522	7,936	10,220	63,032	133,848	81,233
Surplus on revaluation of properties	—	—	—	—	—	—	—	39,485
Net profit for the year	—	—	—	—	—	27,314	27,314	38,480
Issue of capital	96,754	—	—	—	—	—	96,754	—
Transfer to reserves	—	—	3,487	1,743	—	(5,230)	—	—
Transfer to share capital	—	—	—	—	—	—	—	(25,350)
End of year	<u>96,407</u>	<u>39,485</u>	<u>17,009</u>	<u>9,679</u>	<u>10,220</u>	<u>85,116</u>	<u>257,916</u>	<u>133,848</u>

(a) Capital surplus

On 30 March 2001, 169,000,000 H shares with par value of RMB0.1 each were issued at HKD0.72, equivalent to RMB0.77. The share premium, net of underwriter commissions and professional fees, of approximately RMB96,754,000 was recorded as capital surplus.

18. Reserves (continued)

(b) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and the Company and its subsidiaries' articles of association, the Company and its subsidiaries are required to appropriate 10% and 5% of their annual statutory net profit, after offsetting any prior years' losses, to the statutory surplus reserve and statutory public welfare fund. 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 items for the collective benefits of the Company and its subsidiaries employees such as construction of dormitories, canteen and other staff welfare facilities, with the title of these capital items remain with the Company and its subsidiaries. This fund is non-distributable other than in liquidation.

(c) Discretionary surplus reserve

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

(d) Appropriation of reserves

For the year ended 31 December 2001, the directors of the Company resolved to appropriate RMB3,487,000 and RMB1,743,000 (the Group: RMB3,614,000 and RMB1,807,000) to the statutory surplus reserve and statutory public welfare fund respectively.

For the year ended 31 December 2000, the directors of the Company resolved to appropriate RMB4,353,000 and RMB2,176,000 to the statutory surplus reserve and statutory public welfare fund respectively.

In March 2000, pursuant to a resolution passed by the shareholders, the Company converted capital surplus of RMB11,407,000 to share capital on the basis of 45 bonus shares for each 100 shares.

In March 2000, pursuant to a resolution passed by the shareholders, the Company converted retained earnings of RMB13,943,000 to share capital on the basis of 55 bonus shares for each 100 shares.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

19. Borrowings

As at 31 December 2001, the long-term bank loans, with period from February 2001 to August 2002, are unsecured and bears interest rate at 7.128% per annum.

As at 31 December 2000, the long-term bank loans, with period from March 2000 to August 2001, were unsecured and bore interest rate at 7.72% per annum.

20. Trade payables

As at 31 December 2001 and 2000, the aging of all the trade payables were within one year.

21. Provision for warranty

	Group and Company	
	2001	2000
	RMB'000	RMB'000
Balance, beginning of year	680	576
Provisions made during the year	845	700
Provisions used during the year	(792)	(596)
Balance, end of year	<u>733</u>	<u>680</u>

In 2001, the Company has provided RMB845,000 (2000: RMB700,000) for expected warranty claims on products sold. The provisions have not been discounted as the effect of discounting is not material. The majority of these warranty costs are expected to be settled in the next financial year, with all costs to be settled within one year of the balance sheet date.

22. Housing and retirement cost

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

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

23. Notes to the cash flow statement

(a) Reconciliation of profit before tax to cash generated from operations:

	2001 RMB'000	2000 RMB'000
Cash flow from operating activities:		
Profit before tax	34,803	46,977
Adjustments for		
Write-back of provision for doubtful debts	(1,372)	(154)
Provision for inventory obsolescence	1,233	—
Depreciation of fixed assets	2,169	989
Gain on disposals of fixed assets	—	(140)
Interest expense	2,128	1,989
Interest income	(908)	(93)
Dividend income on investment securities	—	(705)
Amortisation of intangible assets	14,444	14,444
Operating profit before working capital changes	52,497	63,307
(Increase) decrease in inventories	(9,734)	1,882
(Increase) decrease in trade receivables	(154)	9,198
Increase in prepayment and other receivables	(2,653)	(9,520)
(Increase) decrease in amounts due from related parties	(12,875)	1,126
Increase (decrease) in trade payables	1,639	(1,679)
(Decrease) increase in other payables and accruals	(9,264)	1,230
Increase in provision for warranty	53	104
Decrease in amounts due to related parties	(1,859)	(43,009)
(Decrease) increase in taxes payable	(5,746)	7,190
Cash generated from operations	11,904	29,829

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

23. Notes to the cash flow statement (continued)

(b) Analysis of the balances of cash and cash equivalents:

	Group	
	2001 RMB'000	2000 RMB'000
Cash on hand	1	3
Cash in banks		
— Current deposits	60,334	39,589
— Fixed deposits (i)	24,395	—
Deposits in other financial institution (ii)	67,091	—
	<u>151,821</u>	<u>39,592</u>

(i) Fixed deposits in banks

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

(ii) Deposits in other financial institution

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

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

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

24. Related party transactions

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

Name of related party	Relationship
Sichuan Top Software Company Limited ("Top Software")	Majority shareholder of the Company
Top Development	Ultimate holding company
Sichuan Top Computer Company Limited (previously known as "Sichuan Top Electronics Technology Company Limited", collectively referred to "Top Computer")	Shareholder of the Company
Top Group	Subsidiary of Top Development
Chengdu Top Chang Zheng Network Company Limited ("Top Chang Zheng")	Subsidiary of Top Software
Zigong Top Computer Company Limited ("Zigong Top")	Subsidiary of Top Software
Sichuan Finance Lease	Subsidiary of Top Development

(ii) The Group had the following material transactions with related parties for the year ended 31 December 2001:

	2001 RMB'000	2000 RMB'000
(a) Sale of goods to related parties:		
Top Computer	974	—
Zigong Top	698	—
Top Software	422	20,724
Top Chang Zheng	367	2,342
Top Development	—	775
Top Group	—	44
	<u>2,461</u>	<u>23,885</u>

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

24. Related party transactions (continued)

	2001 RMB'000	2000 RMB'000
(b) Purchase of contract materials from related parties:		
Top Computer	7,913	5,363
Top Chang Zheng	80	513
Top Group	—	111
	<u>7,993</u>	<u>5,987</u>
(c) Property construction cost payable to a related party:		
Top Development	—	15,560
	<u>2001 RMB'000</u>	<u>2000 RMB'000</u>
(d) Rental income from a related party:		
Top Group	<u>1,335</u>	<u>1,447</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.

	2001 RMB'000	2000 RMB'000
(e) Equipment leasing fee payable to related parties:		
Top Group	749	—
Top Development	—	395
	<u>749</u>	<u>395</u>

On 8 March 2001, the Company entered into an equipment leasing agreement with Top Development. Pursuant to this agreement, the Company will lease from Top Development certain equipment used in the development of software at a price equal to the fair rental market value of the equipment or the amount Top Development would ordinarily charge its customers, whichever is lower. The initial term of the agreement is from 1 January 2001 to 31 December 2003. The Company may terminate the agreement at any time upon six months prior notice to Top Development.

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

24. Related party transactions (continued)

	2001 RMB'000	2000 RMB'000
(f) Composite services fees payable to a related party:		
Top Group	<u>1,453</u>	<u>1,863</u>

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

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

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

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

	2001 RMB'000	2000 RMB'000
(g) Rental expenses payable to a related party:		
Top Group	<u>400</u>	<u>266</u>

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

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

24. Related party transactions (continued)

(h) Cash deposits in a related party:

As at 31 December 2001, the Company has cash deposits in Sichuan Finance Lease, amounted to RMB67,091,000, with interest at rates ranging from 0.99% to 5.85% per annum (Note 23(b)).

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

(iii) 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.

(iv) 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.

25. Contingent liabilities

As at 31 December 2001, the Group had no significant contingent liabilities.

26. Commitments

As at 31 December 2001, the total future minimum lease payments payable under non-cancellable operating leases of the Group are as follows:

	2001 RMB'000	2000 RMB'000
Within one year	679	400
After one year but within five years	892	934
	<u>1,571</u>	<u>1,334</u>

Notes to the Financial Statements

31 DECEMBER 2001 (Amounts expressed in Renminbi ("RMB") unless otherwise stated)

27. Segment reporting

The Group conducts its business within one business segment — business of provision of system solution services and other value added services such as technology consultancy, after-sales support and training services in the PRC. No segment income statement has been prepared by the Group during the year ended 31 December 2001. 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.

28. Subsequent events

On 19 March 2002, the Board of Directors proposed the payment of a dividend of RMB0.02 per share totalling approximately RMB13,520,000, in respect of the year ended 31 December 2001. The proposed dividend is subject to approval by the Company's shareholders in general meeting.

29. Comparative figures

Certain 2000 comparative figures have been reclassified to conform to the current year's presentation.

30. Approval of financial statements

The financial statements (set out on page 37 to page 70) were approved and authorised for issue by the board of directors on 19 March 2002.