



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)

First Quarterly Report 2002

** For identification purposes only*

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 out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

HIGHLIGHTS

Turnover for the three months ended 31 March 2002 reduced to approximately RMB10,804,000.

Loss attributable to shareholders for the three months ended 31 March 2002 was approximately RMB856,000.

Loss per share for the three months ended 31 March 2002 was RMB0.0013. The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2002.

FIRST QUARTERLY RESULTS

The board of directors (the "Board") of Chengdu Top Sci-Tech Company Limited (the "Company") hereby announces unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2002 and the comparative for the corresponding period ended 31 March 2001.

	For the three months ended 31 March	
	2002 RMB'000	2001 RMB'000
Turnover (note 3)	10,804	35,007
Cost of sales	(6,730)	(19,554)
Amortisation of intangible assets	(3,611)	(3,611)
Gross profit	463	11,842
Other revenue	1,353	279
Distribution costs	(1,395)	(773)
Administrative expenses	(835)	(1,418)
Other operating expenses	(86)	(40)
(Loss) profit from operations	(500)	9,890
Finance costs	(537)	(531)
Subsidy revenue	—	1,814
(Loss) profit before tax	(1,037)	11,173
Taxation (note 4)	177	(1,946)
(Loss) profit after tax	(860)	9,227
Minority interests	4	—
(Loss) profit attributable to shareholders	(856)	9,227
(Loss) earnings per share (note 5)	RMB(0.0013)	RMB0.0181

NOTES:

1. Organisation

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

2. Basis of preparation and principal accounting policies

The Group's unaudited consolidated results 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 "GEM Listing Rules").

The principal accounting policies adopted in preparing the accounts are consistent with those used in the annual financial statements for the year ended 31 December 2001 of the Group.

3. Turnover

The turnover of the Group by reference to the categories of major products is analyzed as follows:

	For the three months ended 31 March	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
TS'98 Tax Management Information System	3,498	11,277
TPHMIS Housing Reform Management Information System	2,296	13,007
LED Display Control System	2,552	9,789
Government Administration System	2,443	444
Other solution systems	15	490
Total	<u>10,804</u>	<u>35,007</u>

4. Taxation

PRC Enterprise income tax ("EIT")

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

The subsidiaries of the Company are subject to EIT at 33%.

Details of EIT charged during the relevant periods are as follows:

	For the three months ended 31 March	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation	—	1,970
Write-back of deferred taxation	(177)	(24)
Total	<u>(177)</u>	<u>1,946</u>

Hong Kong profits tax

No provision for Hong Kong profits tax was made as the Group had no assessable profits for the three months ended 31 March 2002 (three months ended 31 March 2001: nil).

There were no material unprovided deferred tax liabilities as at 31 March 2002 (2001: nil).

Value-added tax ("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.

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.

4. **Taxation** *(Continued)*

Business tax ("BT")

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

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.

5. **(Loss) earnings per share**

The calculation of basic (loss) earnings per share is based on the loss attributable to shareholders of approximately RMB856,000 for the three months ended 31 March 2002 (three months ended 31 March 2001: profit of approximately RMB9,227,000) and on the weighted average number of shares outstanding of 676,000,000 shares for the three months ended 31 March 2002 (during the three months period ended 31 March 2001: 510,755,556 shares).

No diluted (loss) earnings per share for the three months ended 31 March 2001 and 2002 have been presented because there were no dilutive potential ordinary shares in existence during the periods.

MOVEMENT IN RESERVES

The Group's movement in reserves are as follows:

	Capital surplus <i>RMB'000</i>	Retained earnings <i>RMB'000</i>
Balance as at 1 January 2001	(347)	63,032
Net premium on issue of H Shares (<i>note 1</i>)	96,754	—
Profit attributable to shareholders	—	9,227
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Balance as at 31 March 2001 (<i>note 2</i>)	96,407	72,259
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Balance as at 1 January 2002	96,407	86,198
Loss attributable to shareholders	—	(856)
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Balance as at 31 March 2002	96,407	85,342
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Notes:

1. Net premium on issue of H Shares had been restated from approximately RMB96,534,000 to approximately RMB96,754,000. The restatement of increasing net premium by approximately RMB220,000 was resulted from reversal of over-accrued shares issuing expenses. The accounting of share issuing expenses was completed in the second quarter of 2001. The above restatement has been reflected in the 2001 interim report.
2. Due to the restatement of net premium on issue of H Shares as stated in note 1 above, the balance of capital surplus as at 31 March 2001 were restated from approximately RMB96,187,000 to approximately RMB96,407,000.

Saved as disclosed above, there was no reserve movement in the Company's statutory surplus reserve fund, statutory public welfare fund, discretionary surplus reserve fund and revaluation surplus for the three months ended 31 March 2001 and 2002.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2002 (three months ended 31 March 2001: nil).

BUSINESS REVIEW AND PROSPECTS

Business Review of the Group

Summary of Unaudited Consolidated Results

	For the three months ended 31 March 2002
	<i>RMB'000</i>
Turnover	10,804
Loss before taxation	(1,037)
Loss attributable to shareholders	(856)

For the three months ended 31 March 2002, the Group recorded a turnover of approximately RMB10,804,000 and a loss of approximately RMB856,000. This represented a drop of 69% in terms of turnover as compared with the same period last year. The decrease was due to the reasons that the completion and delivery of certain information technology solutions projects were deferred, and that the Group followed the market trend to reduce the price of its products as well as the demand for "TPHMIS Housing Reform Management Information System" was reduced. The deferral of the projects were at the requests of the customers and they are expected to be completed in the second or third quarter of 2002. The loss in the first quarter did not indicate that the Group has any financial difficulties. Nevertheless, the Group still maintains a very good financial condition. As at 31 March 2002, cash and cash equivalent of the Group was approximately RMB144,610,000.

Product 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 research and development 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 three months ended 31 March 2002, the Group expanded its sales and service centre in Shanghai and for the purpose of promoting the Company's products and providing value added services, including provision of technology consultancy, after-sales support, installation of proprietary information technology solutions into contract materials and training services, etc, and of maintaining a close relationship with the customers. Such centre was developed into a subsidiary of the Company. Currently, the office in Chongqing is undergoing similar process. Not only could this help the Group to widen its sales channel, but also facilitate to promote the Group's image.

The services supplied by other information technology solutions providers of this field generally include purchases for and on behalf of the customers contract materials which are to be used in conjunction with the information technology solution projects and sales of accessory information technology products to customers in order to enlarge the level of connection with and bases of customers. Another objective of the Group in setting up the subsidiary in Shanghai is to improve the business viability so as to enhance the service of sales of accessory information technology products to customers as well as to keep its services in pace with other providers in the field.

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

Major products of the Group include "TS'98 Tax Management Information System", "TPHMIS Housing Reform Management Information System", "LED Display Control System" and "Government Administration System". 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 for Government Administration”, “Information Security Technology” and “Embedded Operating System”. The Group’s research and development teams will focus on the component software modules in order to meet customers’ need and expectation.

Prospects

The Directors believe that with the continual growth of the PRC economy and the PRC’s accession to the World Trade Organisation, the PRC government-related entities will expedite to improve the quality of work and economic efficiency, and increase the demand for electronic information systems. As an experienced and one of the major information technology solutions providers to government-related entities in the PRC, 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.

DISCLOSURE OF THE DIRECTORS' AND SUPERVISORS' INTERESTS IN THE ISSUED SHARE CAPITAL OF THE COMPANY

As at 31 March 2002, the beneficial interests of the Directors and Supervisors and their respective associates in the share capital of the Company or any of its associated corporations which will be required pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "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:

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

NOTES:

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

Save as disclosed above, as at 31 March 2002, none of the Directors, Supervisors or their respective associates had any beneficial interests in the share capital of the Company or any of its associated corporations 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 Rules 5.40 to 5.59 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

During the three months ended 31 March 2002, none of the Directors or Supervisors was granted options to subscribe for any types of shares of the Company. As at 31 March 2002, none of the Directors or Supervisors held any options to subscribe any types of the Company's shares.

SHARE OPTION SCHEME

Up to 31 March 2002, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, so far as is known to the Company, the following persons were interested in 10% or more of the interests in the issued share capital of the Company, who should make disclosure in accordance with Section 16(1) of the SDI Ordinance.

Name of Shareholder	Number of ordinary shares of RMB0.10 each	Percentage of issued share capital
Top Development	344,500,000 ^{(1),(2)}	50.95%
Sichuan Top Software Company Limited ("Top Software")	286,000,000 ^{(1),(3)}	42.30%
Labour Association of Top Development	344,500,000 ^{(1),(4)}	50.95%

NOTES:

1. These shares are domestic shares of the Company.
2. Top Development holds 5.77% direct interest in the Company. Top Development owns 34.96% of Top Software, which owns 40.38% of the Company. Top Software owns 82% of Sichuan Top Computer Company Limited ("Top Computer"), which owns 1.92% of the Company. Top Development owns 80% of Chengdu Top Information Network Engineering Company Limited, which owns 1.92% of the Company. Top Development owns 60% of Chengdu Tuoan Sci-Tech Information Company Limited, which owns 0.96% of the Company.
3. 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 note 2 above.

Save as disclosed above, the Directors and 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 three months ended 31 March 2002, the Company or its subsidiaries did not purchase, sell or redeem any of the Company's shares.

COMPETING INTERESTS

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

SPONSOR'S INTEREST

As at 31 March 2002, neither Core Pacific - Yamaichi Capital Limited (the "Sponsor") nor its directors or employees or respective associates had any interests in the securities of the Company or any member of the Group, or rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

According to the sponsor's agreement entered into between the Company and the Sponsor on 23 March 2001, the Sponsor has received and will receive sponsorship fee as being the retained sponsor of the Company for the period from 30 March 2001 to 31 December 2003.

AUDIT COMMITTEE

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

The audit committee comprises four members, including three 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 has reviewed the Group's unaudited consolidated results for the three months ended 31 March 2002 and was of the view that the compilation of the results has complied with all applicable accounting standard and relevant regulations and laws, and made sufficient disclosure.

By order of the Board

Li Zheng Bin

Chairman

Chengdu, the PRC, 14 May 2002