



成都托普科技股份有限公司

CHENGDU TOP SCI-TECH COMPANY LIMITED*

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

Interim Report 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 of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INTERIM RESULTS

The board of directors (the “Board”) of Chengdu Top Sci-Tech Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 and the comparatives for the corresponding period in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | For the six months ended 30 June | | For the three months ended 30 June | |
|---|------|--|--------------------------------|--|--------------------------------|
| | | 2002 (unaudited) RMB'000 | 2001 (unaudited) RMB'000 | 2002 (unaudited) RMB'000 | 2001 (unaudited) RMB'000 |
| Turnover | 3 | 48,796 | 69,366 | 37,992 | 34,359 |
| Cost of sales | | (31,802) | (36,361) | (25,072) | (16,807) |
| Amortization of intangible assets | | (7,222) | (7,222) | (3,611) | (3,611) |
| Gross profit | | 9,772 | 25,783 | 9,309 | 13,941 |
| Other revenue | 4 | 2,642 | 1,135 | 1,289 | 717 |
| Distribution costs | | (2,999) | (2,584) | (1,604) | (1,811) |
| Administrative expenses | | (4,324) | (4,139) | (3,489) | (2,720) |
| Other operating expenses | | (153) | (250) | (67) | (134) |
| Profit from operations | | 4,938 | 19,945 | 5,438 | 9,993 |
| Finance costs | | (1,077) | (974) | (540) | (380) |
| Income from investment securities | | 705 | — | 705 | — |
| Subsidy income | 5 | 3,387 | 8,554 | 3,387 | 6,739 |
| Profit before taxation | | 7,953 | 27,525 | 8,990 | 16,352 |
| Income tax expenses | 6(a) | (2,426) | (4,355) | (2,603) | (2,409) |
| Profit after taxation | | 5,527 | 23,170 | 6,387 | 13,943 |
| Minority interests | | (334) | — | (338) | — |
| Profit attributable to shareholders | | 5,193 | 23,170 | 6,049 | 13,943 |
| Basic earnings per share | 7 | RMB0.0077 | RMB0.039 | RMB0.009 | RMB0.0206 |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30 June 2002 (unaudited) RMB'000 | As at 31 December 2001 (audited) RMB'000 |
|---|----|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Fixed assets, net | 9 | 83,499 | 85,297 |
| Intangible assets, net | 10 | 61,617 | 68,839 |
| Investment securities | | 9,755 | 9,050 |
| | | <u>154,871</u> | <u>163,186</u> |
| Current assets | | | |
| Inventories, net | 11 | 28,196 | 17,060 |
| Trade receivables, net | 12 | 38,416 | 23,179 |
| Prepayments and other receivables | | 34,150 | 14,163 |
| Due from related parties | | 4,357 | 13,011 |
| Cash and cash equivalents | | 142,035 | 151,821 |
| | | <u>247,154</u> | <u>219,234</u> |
| Total assets | | <u><u>402,025</u></u> | <u><u>382,420</u></u> |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 13 | 67,600 | 67,600 |
| Reserves | | 250,862 | 259,189 |
| | | <u>318,462</u> | <u>326,789</u> |
| Minority interests | | <u>10,401</u> | <u>1,067</u> |
| Current liabilities | | | |
| Long-term borrowings, repayable within one year | | 30,000 | 30,000 |
| Trade payables | 14 | 12,385 | 8,878 |
| Receipts in advance, other payables and accruals | | 22,650 | 8,165 |
| Taxes payable | | 5,583 | 3,381 |
| Provision for warranty | | 421 | 733 |
| Due to related parties | | 2,123 | 3,407 |
| | | <u>73,162</u> | <u>54,564</u> |
| Total equity and liabilities | | <u><u>402,025</u></u> | <u><u>382,420</u></u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended 30 June 2002 (unaudited) <i>RMB'000</i> | For the six months ended 30 June 2001 (unaudited) <i>RMB'000</i> |
|---|--|--|
| Net cash (used) generated from operations | (18,720) | 19,514 |
| Cash flows from investing activities | | |
| Purchases of fixed assets | (73) | (36) |
| Proceeds from disposals of fixed assets | 7 | — |
| Increase in investment securities | (705) | — |
| Dividend income from investment securities | 705 | — |
| | (66) | (36) |
| Net cash used in investing activities | (66) | (36) |
| Cash flows from financing activities | | |
| Net proceeds from issue of H shares | — | 113,654 |
| Capital injection by minority shareholders | 9,000 | — |
| | 9,000 | 113,654 |
| Net cash generated from financing activities | 9,000 | 113,654 |
| Net (decrease) increase in cash and cash equivalents | (9,786) | 133,132 |
| Cash and cash equivalents, beginning of period | 151,821 | 39,592 |
| Cash and cash equivalents, end of period | 142,035 | 172,724 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Capital surplus | Revaluation surplus | Statutory surplus reserve | Statutory public welfare fund | Discretionary surplus reserve | Retained earnings | Total |
|-------------------------------------|---------------|-----------------|---------------------|---------------------------|-------------------------------|-------------------------------|-------------------|----------------|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at January 2001 | 50,700 | (347) | 39,485 | 13,522 | 7,936 | 10,220 | 63,032 | 184,548 |
| Issue of H shares | 16,900 | 96,754 | — | — | — | — | — | 113,654 |
| Profit attributable to shareholders | — | — | — | — | — | — | 23,170 | 23,170 |
| Transfer to reserves | — | — | — | 2,683 | 1,342 | — | (4,025) | — |
| As at 30 June 2001 | <u>67,600</u> | <u>96,407</u> | <u>39,485</u> | <u>16,205</u> | <u>9,278</u> | <u>10,220</u> | <u>82,177</u> | <u>321,372</u> |
| As at 1 January 2002 | 67,600 | 96,407 | 39,485 | 17,136 | 9,743 | 10,220 | 86,198 | 326,789 |
| Profit attributable to shareholders | — | — | — | — | — | — | 5,193 | 5,193 |
| Transfer to reserves | — | — | — | 1,058 | 529 | — | (1,587) | — |
| Dividend (Note 8(b)) | — | — | — | — | — | — | (13,520) | (13,520) |
| As at 30 June 2002 | <u>67,600</u> | <u>96,407</u> | <u>39,485</u> | <u>18,194</u> | <u>10,272</u> | <u>10,220</u> | <u>76,284</u> | <u>318,462</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 successfully listed on GEM on 30 March 2001.

2. Basis of preparation and principal accounting policies

The Group's unaudited condensed consolidated interim 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 and with the disclosure requirements of the Rules Governing the Listing Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The principal accounting policies adopted in 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 six months ended 30 June | | For the three months ended 30 June | |
|---|-------------------------------------|---------------|---------------------------------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| TS'98 Tax Management Information System | 15,116 | 22,556 | 11,618 | 11,279 |
| TPHMIS Housing Reform Management Information System | 10,136 | 21,516 | 7,840 | 8,509 |
| LED Display Control System | 12,883 | 16,199 | 10,331 | 6,410 |
| Government Administration System | 9,661 | 5,752 | 7,218 | 5,308 |
| Other solution systems | 1,000 | 3,343 | 985 | 2,853 |
| Total | <u>48,796</u> | <u>69,366</u> | <u>37,992</u> | <u>34,359</u> |

4. Other revenue

| | For the six months ended 30 June | | For the three months ended 30 June | |
|-----------------|-------------------------------------|--------------|---------------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Rental income | 750 | 760 | 417 | 424 |
| Interest income | 1,301 | 331 | 283 | 268 |
| Others | 591 | 44 | 589 | 25 |
| | <u>2,642</u> | <u>1,135</u> | <u>1,289</u> | <u>717</u> |

5. Subsidy income

| | For the six months ended 30 June | | For the three months ended 30 June | |
|----------------------|-------------------------------------|--------------|---------------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Financial refund (a) | 2,172 | 1,815 | 2,172 | — |
| Tax refund (b) | 1,215 | 6,739 | 1,215 | 6,739 |
| | <u>3,387</u> | <u>8,554</u> | <u>3,387</u> | <u>6,739</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.

6. Taxation

(a) 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 Chengdu NHTDZ. Accordingly, the Company is subject to EIT at 15%.

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

The Group did not have any Hong Kong profits tax liabilities as it did not earn any income subject to Hong Kong profits tax.

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

| | For the six months ended 30 June | | For the three months ended 30 June | |
|---|-------------------------------------|--------------|---------------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current taxation | 2,650 | 4,408 | 2,650 | 2,438 |
| Provision for (write-back of) deferred taxation | <u>(224)</u> | <u>(53)</u> | <u>(47)</u> | <u>(29)</u> |
| Total | <u>2,426</u> | <u>4,355</u> | <u>2,603</u> | <u>2,409</u> |

There were no material unprovided deferred tax liabilities as at 30 June 2002 (2001: Nil).

(b) Value-added tax ("VAT")

Individual companies within the Group are subject to output VAT levied at the rate of 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.

(c) **Business tax ("BT")**

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

(d) **Surtaxes**

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

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

7. **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders for the six months and three months ended 30 June 2002 of respectively approximately RMB5,193,000 and RMB6,049,000 (six months and three months ended 30 June 2001: approximately RMB23,170,000 and RMB13,943,000 respectively) and on the weighted average of outstanding 676,000,000 shares for the six months and three months ended 30 June 2002 (during the six months and three months ended 30 June 2001: 593,834,254 shares and 676,000,000 shares respectively).

No diluted earnings per share for the six months and three months ended 30 June 2001 and 2002 have been presented because there were no dilutive potential ordinary shares in existence during the periods.

8. **Dividend**

(a) **Interim dividend attributable to the six months**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2002 (six months ended 30 June 2001: Nil).

(b) **Dividend attributable to the previous financial year, approved and paid during the six months**

| | For the six months ended 30 June | |
|--|---|----------------|
| | 2002 | 2001 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Final dividend in respect of the previous financial year, approved and paid during the six months, of RMB0.02 per share (six months ended 30 June 2001: Nil) | 13,520 | — |

9. Fixed assets

| | Buildings <i>RMB'000</i> | Land use rights <i>RMB'000</i> | Other equipment <i>RMB'000</i> | Total <i>RMB'000</i> |
|---------------------------------|------------------------------------|--|--|--------------------------------|
| Cost or valuation | | | | |
| As at 1 January 2002 | 45,090 | 41,010 | 3,173 | 89,273 |
| Additions | 10 | — | 63 | 73 |
| Disposals | — | — | (17) | (17) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 30 June 2002 | 45,100 | 41,010 | 3,219 | 89,329 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Including: | | | | |
| At cost | 21 | — | 3,219 | 3,240 |
| At valuation | 45,079 | 41,010 | — | 86,089 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | <u>45,100</u> | <u>41,010</u> | <u>3,219</u> | <u>89,329</u> |
| Accumulated depreciation | | | | |
| As at 1 January 2002 | 2,151 | 1,051 | 774 | 3,976 |
| Increase for the period | 546 | 421 | 897 | 1,864 |
| Disposals | — | — | (10) | (10) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 30 June 2002 | 2,697 | 1,472 | 1,661 | 5,830 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| As at 30 June 2002 | <u>42,403</u> | <u>39,538</u> | <u>1,558</u> | <u>83,499</u> |
| As at 31 December 2001 | <u>42,939</u> | <u>39,959</u> | <u>2,399</u> | <u>85,297</u> |

The Group charged depreciation of fixed assets approximately RMB1,852,000 in the consolidated income statement for the six months ended 30 June 2002 (six months ended 30 June 2001: approximately RMB1,619,000).

The directors are of opinion that the underlying value of fixed assets was not less than their carrying value as at 30 June 2002.

10. Intangible assets

| | Software copyright <i>RMB'000</i> | Patent <i>RMB'000</i> | Proprietary technology <i>RMB'000</i> | Total <i>RMB'000</i> |
|---------------------------------|---|---------------------------------|---|--------------------------------|
| Cost | | | | |
| As at 1 January 2002 | 88,357 | 8,778 | 7,110 | 104,245 |
| Additions | — | — | — | — |
| | <u>88,357</u> | <u>8,778</u> | <u>7,110</u> | <u>104,245</u> |
| As at 30 June 2002 | 88,357 | 8,778 | 7,110 | 104,245 |
| | <u>88,357</u> | <u>8,778</u> | <u>7,110</u> | <u>104,245</u> |
| Accumulated amortisation | | | | |
| As at 1 January 2002 | 24,316 | 5,402 | 5,688 | 35,406 |
| Increase for the period | 5,836 | 675 | 711 | 7,222 |
| | <u>24,316</u> | <u>5,402</u> | <u>5,688</u> | <u>35,406</u> |
| As at 30 June 2002 | 30,152 | 6,077 | 6,399 | 42,628 |
| | <u>30,152</u> | <u>6,077</u> | <u>6,399</u> | <u>42,628</u> |
| Net book value | | | | |
| As at 30 June 2002 | 58,205 | 2,701 | 711 | 61,617 |
| | <u>58,205</u> | <u>2,701</u> | <u>711</u> | <u>61,617</u> |
| As at 31 December 2001 | 64,041 | 3,376 | 1,422 | 68,839 |
| | <u>64,041</u> | <u>3,376</u> | <u>1,422</u> | <u>68,839</u> |

The Directors are of opinion that the underlying value of the intangible assets was not less than its carrying value as at 30 June 2002.

11. Inventories

As at 30 June 2002 and 31 December 2001, the provision for obsolescence included in the inventories were approximately RMB787,000 and RMB1,374,000 respectively.

The Group reversed provision for obsolescence in the inventories approximately RMB587,000 in the consolidated income statement for the six months ended 30 June 2002 (six months ended 30 June 2001: made provision for obsolescence approximately RMB446,000).

12. **Trade receivables, net**

| | As at 30 June 2002 | As at 31 December 2001 |
|------------------------------------|-----------------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 53,309 | 35,411 |
| Less: Provision for doubtful debts | (14,893) | (12,232) |
| | <hr/> | <hr/> |
| Trade receivables, net | <u>38,416</u> | <u>23,179</u> |

The Group made provision for doubtful debts in respect of trade receivables approximately RMB2,661,000 in the consolidated income statement for the six months ended 30 June 2002 (six months ended 30 June 2001: approximately RMB625,000).

The normal credit period granted by the Group is on average 120 days from the date of invoice. An aging analysis of trade receivables is set out below:

| | As at 30 June 2002 | As at 31 December 2001 |
|--|-----------------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Not exceeding one year | 36,272 | 19,527 |
| More than one year but not exceeding two years | 6,756 | 6,212 |
| More than two years but not exceeding three years | 610 | 2,436 |
| More than three years | 9,671 | 7,236 |
| | <hr/> | <hr/> |
| | 53,309 | 35,411 |
| Less: Provision for doubtful debts | (14,893) | (12,232) |
| | <hr/> | <hr/> |
| | <u>38,416</u> | <u>23,179</u> |

13. Share capital

| | Number of shares | | Amount | |
|--|----------------------------------|--------------------------------------|-------------------------------------|---|
| | As at 30 June 2002 '000 | As at 31 December 2001 '000 | As at 30 June 2002 RMB'000 | As at 31 December 2001 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 | 169,000 | 16,900 | 16,900 |
| | <u>676,000</u> | <u>676,000</u> | <u>67,600</u> | <u>67,600</u> |

14. Trade payables

As at 30 June 2002 and 31 December 2001, the aging of all the trade payables of the Group were within one year.

15. Related party transactions

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

| Name of related party | Relationship |
|---|-------------------------------------|
| Sichuan Top Sci-Tech Development Company ("Top Development") | Ultimate holding company |
| Sichuan Top Software Company Limited ("Top Software") | Majority shareholder of the Company |
| Sichuan Top Computer Company Limited ("Top Computer") | Shareholder of the Company |
| Top Group Technology Development Company Limited ("Top Group") | Subsidiary of Top Development |
| Sichuan Finance Lease Company Limited ("Sichuan Finance") | Subsidiary of Top Development |
| Chengdu Top Chang Zheng Network Company Limited ("Top Chang Zheng") | Subsidiary of Top Software |
| Sichuan Top Communication Company Limited ("Top Communication") | Subsidiary of Top Software |
| Yunnan Top Software Company Limited ("Yunnan Top") | Subsidiary of Top Software |
| Xian Top Software Company Limited ("Xian Top") | Subsidiary of Top Software |

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

| | For the six months ended 30 June | |
|---|---|----------------|
| | 2002 | 2001 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| (a) Sales of goods to related parties: | | |
| Yunnan Top | 742 | — |
| Xian Top | 149 | — |
| Top Chang Zheng | 10 | 264 |
| Top Software | — | 218 |
| | <u>901</u> | <u>482</u> |
| (b) Purchases of contract materials from related parties: | | |
| Top Software | 133 | — |
| Top Communication | 19 | — |
| Top Computer | 3 | 4,001 |
| | <u>155</u> | <u>4,001</u> |
| (c) Rental income from a related party: | | |
| Top Group | <u>750</u> | <u>668</u> |

Pursuant to a property leasing agreement entered into between the Company and Top Group on 8 March 2001, the Company agreed to lease three buildings, namely Xiruan No 1, 2 and 15, with a total gross floor area of approximately 10,531.18 square meter located at Top Road, Hong Guang Zhen, Chengdu City, Sichuan Province, the PRC to Top Group from 1 January 2001 to 31 December 2003.

**For the six months
ended 30 June**

| | 2002 | 2001 |
|--|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |

(d) Composite services fee payable to related parties:

| | | |
|-----------------|-----|-----|
| Top Group | 250 | 745 |
| Top Development | 1 | — |
| | 251 | 745 |
| | 251 | 745 |

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 City will apply;
- (3) Where there is no nation-wide government prescribed price nor a prescribed price for Sichuan Province or Chengdu City, the price to be agreed between the relevant parties for the provision of the above services, which, in any event, shall not exceed reasonable cost plus 20% margin.

**For the six months
ended 30 June**

| | 2002 | 2001 |
|--|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |

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

| | | |
|-----------|------------|------------|
| Top Group | <u>200</u> | <u>200</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.

- (f) Cash deposits in a related party

During the period from 6 September 2001 to 27 March 2002 (the "Period"), the Company had placed with Sichuan Finance savings deposit and fixed deposit. Total maximum balance of savings and fixed deposits reached RMB68,654,439. The annual interest rates of such deposits respectively were 0.99% (decreased to 0.72% with effect from 21 February 2002) and 5.85%. During the Period, the interest income earned therefrom was RMB839,428.

- (iii) The amounts due from and due to related parties were unsecured, non-interest bearing and with no fixed repayment date and primarily arisen 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 Group's business and in accordance with the terms of the agreements governing the transactions.

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 for the six months ended 30 June 2002.

| Principal area | Key business objectives | Actual business progress |
|---|---|--|
| IT Solution Development | | |
| Government administration framework software basing on multi-layer system | Complete testing of government administration framework service platform as well as encoding and testing of communication platform and system service platform | The testing of government administration framework service platform as well as encoding and testing of communication platform and system service platform were completed. The Company is now conducting the relevant development. |
| Biometric finger print identifying system | Designing and testing of software module prototypes, overall testing on proto-type. Explore customer and security software basing on finger print identification technics, including finger print data-base management system, finger print business program, security reader program etc | The software module prototypes, overall testing on proto-type were designed and tested. The customer and security software basing on finger print identification technics, including finger print data-base management system, finger print business program, security reader program etc were explored. The Company is now developing the relevant documentation and testing. |

| Principal area | Key business objectives | Actual business progress |
|---------------------------|--|---|
| Embedded operating system | Development of embedded operating system software, system testing and design standards for documentary files | The development of embedded operating system software, system testing and design standards for documentary files were completed. The Company is now conducting interim testing on the system. |

Marketing

| | | |
|----------------------|---|--|
| Marketing activities | Development of market sales, technological services support network in the Huadong, Huabei district as priority, set up Beijing and Hangzhou sales offices or representative offices, and expand office in Shanghai | The Company set up Beijing sales office and expanded office in Shanghai as its subsidiary. The market sales, technological services support network in the Huadong, Huabei districts were developed with its centre in Shanghai. As Hangzhou is closed to Shanghai, the Company postpones to set up sales office or representative office in Hangzhou so as to centralize the resources. Currently, the Company is exploring the markets in Xinan, Xibei districts and is restructuring its office in Chongqing into a subsidiary. |
|----------------------|---|--|

Principal area**Key business objectives****Actual business progress**

Set up information technological centre in USA; and complete construction of basic facilities for the technology and information centre in the USA (including office space, site construction development, software and hardware development environment construction, office equipment and operation expenses in the initial stage)

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.

Recruit of senior technical and management staffs and development staffs, domestic and international training of the staffs

The Company provided domestic and international training for its staffs. However, as the atmosphere of information technology market was not as good as expected, the Company has not increased its staffs in accordance with the business objective for the purpose of controlling outgoings.

Principal area**Key business objectives**

Promote brand image of TOP and the products through Hong Kong media and market promotions of the products, country-wide exhibitions (Guangzhou Spring, and Autumn Commodity Fair, professional exhibitions of the various ministries and departments)

Actual business progress

The Company undertook market promotions of the products, country-wide exhibitions. Nevertheless, 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.

USE OF PROCEEDS FROM THE ISSUE OF H SHARES

The amount of net proceeds from the issue of H Shares of the Company was approximately HK\$106 million. Up to 30 June 2002, such fund was applied as follows:

- Approximately HK\$35,000,000 (estimated amount as stated in the Prospectus: approximately HK\$43,500,000) 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\$10,000,000 (estimated amount as stated in the Prospectus: approximately HK\$29,000,000) 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\$2,800,000 (estimated amount as stated in the Prospectus: approximately HK\$2,800,000) were used to establish branch and representative office to promote the Company's products.

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 information 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 up to 30 June 2002.

Up to 30 June 2002, the Company has used approximately HK\$47,800,000, being 45.1% of the net proceeds from the issue of H Shares. The remaining approximately HK\$58,200,000 are deposited at the banks in the PRC and will be used to implement the Company's remaining business objectives.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2002, the Group recorded a turnover of approximately RMB48,796,000 and a profit attributable to shareholders of approximately RMB5,193,000. This represented a drop of 29.7% in terms of turnover as compared with the same period last year. The decrease was due to the reasons that the sales for the current period was decreased and that the Group followed the market trend to reduce the price of its products. Nevertheless, with the stable market atmosphere, the Group recorded a profit in the second quarter of 2002. The turnover of the second quarter was increased as compared with the same period last year. As the prices were reduced and the relatively low profit margin products and value added services were proportionately increased in the turnover, both the gross profit and the profit from operations were diluted.

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 six months ended 30 June 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 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. This can enlarge the level of connection with and bases of customers, and also maintain 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. Such arrangement is made in line with the marketing activities as disclosed under the section headed "Key Business Objectives" in the Prospectus, and funded by the proceeds from the issue of H Shares. 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, 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.

Human Resources

As at 30 June 2002, the Group employed 208 staff. For the six months ended 30 June 2002, the total amount of salary paid by the Group to its staff was approximately RMB3,580,000 (six months ended 30 June 2001: approximately RMB4,015,000).

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

Financial Analysis

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

Capital Structure

The following table sets out the share capital of the Company as at 30 June 2002 and 31 December 2001:

| | As at 30 June 2002 | | As at 31 December 2001 | |
|--|--------------------|---------------|------------------------|---------------|
| | Total | Percentage | Total | Percentage |
| | <i>RMB'000</i> | | <i>RMB'000</i> | |
| Shareholders' equity | 318,462 | 88.7% | 326,789 | 91.3% |
| Minority interests | 10,401 | 2.9% | 1,067 | 0.3% |
| Long-term borrowings, repayable within one year | 30,000 | 8.4% | 30,000 | 8.4% |
| Total | <u>358,863</u> | <u>100.0%</u> | <u>357,856</u> | <u>100.0%</u> |

Ability to Debt Repayment and Debt Ratio

As at 30 June 2002, 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 30 June 2002 was 18.2%.

Liquid Capital and Financial Resources

As at 30 June 2002, the Group had net current assets of approximately RMB173,992,000, including deposits of HK\$19,456,000 and of RMB121,244,000. These deposits, together with cash and cash equivalents, were approximately RMB142,035,000. The financial position of the Group remains sound and healthy.

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

Capital Expenditure Commitment

As at 30 June 2002, the Group did not have any significant commitment on capital expenditure.

Charged Assets

As at 30 June 2002, the Group did not have any of its assets charged.

Significant Investments

During the six months ended 30 June 2002, the Company invested RMB21,000,000 to establish a subsidiary namely, "Shanghai Top Sci-Tech Company Limited", and owns 70% interest in the subsidiary. Such subsidiary achieved a profit of approximately RMB832,000 for the Group during that period and is expected to bring about further profit in future.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2002, the Company did not have any material acquisition or dispose of subsidiaries and affiliated companies.

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 30 June 2002. 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 30 June 2002, the Company did not have any material contingent liabilities.

Segmental Information

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

Prospects

The PRC's economy is expected to grow continuously. It would bring about a continuous and stable demand for development of electronic communication by the government-related entities. As at 30 June 2002, the Group had projects in hand, the products of which had been developed but pending completion of the technology solution, with an aggregate contract amount of approximately RMB15 million.

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 30 June 2002, the Group had 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 second half-year of 2002, and such products, upon completion, could bring about considerable amount of revenue.

The Directors 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.

DISCLOSURE OF THE DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL AND DEBT SECURITIES OF THE COMPANY

As at 30 June 2002, the beneficial interests of the Directors, Supervisors, chief executives and their respective associates in the share capital or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which required, 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 30 June 2002, none of the Directors, Supervisors, chief executives or their respective associates had any beneficial interests in the share capital or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance 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', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO PURCHASE SECURITIES

During the six months ended 30 June 2002, none of the Directors, Supervisors or chief executives was granted options to subscribe for any types of securities of the Company. As at 30 June 2002, none of the Directors, Supervisors or chief executives held any options to subscribe any types of the Company's securities.

SHARE OPTION SCHEME

Up to 30 June 2002, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 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.

CHANGES OF THE POSITIONS OF THE DIRECTORS

Two directors of the Company, Mr. Yang Shu Cheng and Mr. Huang Wei Bin, have resigned their respective executive position in the Company on 19 March 2002 but remain as the non-executive director of the Company.

RETAINMENT OF AUDITORS OF THE COMPANY

Since 1 July 2002, auditors of the Company, Arthur Anderson & Co. has merged with PricewaterhouseCoopers Certified Public Accountants. The merged audit firm practises under the name of PricewaterhouseCoopers Certified Public Accountants. According to the resolution passed at the Company's annual general meeting on 14 May 2002, the Company continues to retain the merged audit firm as the auditors of the Company on the condition that all the terms in respect of the provision of services by the merged firm remain unchanged.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2002, the Company or its subsidiaries did not purchase, sell or redeem any of the Company's securities.

COMPETING INTERESTS

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

SPONSOR'S INTEREST

As at 30 June 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 condensed consolidated interim financial statements for the six months ended 30 June 2002 and was of the view that the compilation of the accounts has complied with all applicable accounting standard and relevant regulations and laws, and made sufficient disclosure.

BOARD PRACTICES AND PROCEDURES

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 the GEM Listing Rules.

By order of the Board
Li Zheng Bin
Chairman

Chengdu, the PRC, 14 August 2002