



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

2003

* *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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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 2003 and the comparative figures for the corresponding period ended 31 March 2002.

	For the three months ended 31 March	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover (<i>note 3</i>)	7,951	10,804
Cost of sales	(3,696)	(6,730)
Amortisation of intangible assets	(3,255)	(3,611)
Gross profit	1,000	463
Other revenue (<i>note 3</i>)	732	1,353
Distribution costs	(840)	(1,395)
Administrative expenses	(691)	(835)
Other operating expenses	(72)	(86)
Operating profit (loss)	129	(500)
Finance costs	(1)	(537)
Subsidy income (<i>note 4</i>)	555	—
Profit (loss) before taxation	683	(1,037)
Taxation (<i>note 5</i>)	(423)	177
Profit (loss) after taxation	260	(860)
Minority interests	579	4
Profit (loss) attributable to shareholders	839	(856)
Dividends (<i>note 6</i>)	—	—
Basic earnings (loss) per share (<i>note 7</i>)	RMB0.0012	RMB(0.0013)

MOVEMENT IN RESERVES

The Group's movement in reserves are as follows:

	Capital surplus (unaudited) RMB'000	Revaluation surplus (unaudited) RMB'000	Statutory surplus reserve (unaudited) RMB'000	Statutory public welfare fund (unaudited) RMB'000	Discretionary surplus reserve (unaudited) RMB'000	Retained earnings (unaudited) RMB'000	Total (unaudited) RMB'000
At 1 January 2002	96,407	39,485	17,136	9,743	10,220	86,198	259,189
Loss attributable to shareholders	—	—	—	—	—	(856)	(856)
At 31 March 2002	<u>96,407</u>	<u>39,485</u>	<u>17,136</u>	<u>9,743</u>	<u>10,220</u>	<u>85,342</u>	<u>258,333</u>
At 1 January 2003	96,407	39,485	19,144	10,747	10,220	72,832	248,835
Profit attributable to shareholders	—	—	—	—	—	839	839
At 31 March 2003	<u>96,407</u>	<u>39,485</u>	<u>19,144</u>	<u>10,747</u>	<u>10,220</u>	<u>73,671</u>	<u>249,674</u>

NOTES:

1. Organisation and operations

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

The principal activities of the Group are the provision of system solution services and other value added services such as technology consultancy, after-sales support and training services, and sales of information technology related products. The Company is also engaged in research, development, production and distribution of information technology solutions for government administration systems.

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 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 2002 of the Group.

3. Turnover and revenue

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

	For the three months ended 31 March	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover		
Sales of software and information systems	7,196	10,804
Sales of information technology related products	755	—
	<hr/>	<hr/>
	7,951	10,804
Other revenue		
Rental income	375	334
Interest income	305	1,017
Other	52	2
	<hr/>	<hr/>
	732	1,353
Total revenues	<hr/> <hr/>	<hr/> <hr/>
	8,683	12,157

4. Subsidy income

	For the three months ended 31 March	
	2003 RMB'000	2002 RMB'000
Financial refund ^(a)	—	—
Tax refund ^(b)	555	—
Total	<u>555</u>	<u>—</u>

- (a) Pursuant to Jin Cai Fa [1998] No. 10 and Jin Cai Fa [1999] No. 22 issued on 8 April 1998 and 1 June 1999 respectively by the Finance Bureau of Jin Niu District of Chengdu City, in support of the development of the Company, the Company is entitled to a financial refund based on conditions as stipulated in the notices. The financial refund is recorded as subsidy income and recognised on a cash basis. According to Circular Guo Fa [2000] No. 2 issued by the State Council in January 2000, the above-mentioned financial refund requires approval from the State Council or it will cease to be available. Therefore, there is no assurance that the Company will continue to enjoy such refunds in the future.
- (b) In accordance with Cai Shui [2000] No. 25 issued on 22 September 2000 by the Ministry of Finance and State Administration for Taxation, the Company is entitled to a reduced value added tax ("VAT") rate of 3% for the sales of certain approved software products. The Company is required to pay the VAT at normal rate of 17% and the VAT paid in excess of the VAT computed at the reduced rate will be refunded to the Company. The refund is recorded as subsidy income.

5. Taxation

(a) Enterprise income tax ("EIT")

In accordance with 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 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%.

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

Details of EIT during the period are as follows:

	For the three months ended 31 March	
	2003	2002
	RMB'000	RMB'000
Current taxation	423	—
Write-back of deferred taxation	—	(177)
Total	<u>423</u>	<u>(177)</u>

There were no material unprovided deferred tax liabilities as at 31 March 2003 (31 March 2002: nil).

(b) 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.

(c) Business tax ("BT")

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

(d) Surtaxes

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

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

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

6. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (three months ended 31 March 2002: nil).

7. Earnings (loss) per share

The calculation of basic earnings (loss) per share is based on the profit attributable to shareholders of approximately RMB839,000 for the three months ended 31 March 2003 (three months ended 31 March 2002: loss of approximately RMB(856,000) and the weighted average number of 676,000,000 shares in issue during the three months ended 31 March 2003 (during the three months ended 31 March 2002: 676,000,000 shares).

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 31 March 2003, the Group recorded turnover of approximately RMB7,951,000 and profit attributable to shareholders of approximately RMB839,000. This represented a drop of 26% in term of turnover as compared with the same period last year. The decrease was mainly due to the keen competition of the IT market in the mainland, causing a decline in the total value of the orders received. Starting from this year, the Group has solidly adjusted the products structure and reinforced the sales of the competitive and advantaged products. Hence, it was a large portion of the completed projects constituted by relatively high profit margin products and the gross profit margin was improved. Both interest income and finance costs were dropped as the Group repaid the unsecured bank loan of RMB30,000,000 in August 2002. The Group's overall costs were also effectively controlled and contracted with the adoption to implement cost control measures strictly. With the rise in subsidy income, a profit was resulted in the first quarter and the earnings per share was improved to RMB0.0012 from a loss per share of RMB(0.0013) in the same period last year.

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.

The Group is actively conducting marketing activities. Set up of new sales offices in the mainland and expansion of its sales and service centres for the purpose of promoting the Group's products and providing value added services are continued so as to enlarge the level of connection with and bases of customers and also maintain a close relationship with customers. The Group also provides domestic and international training for its staff in order to strengthen technical, production and promotion skills of its staff. Moreover, the Group undertakes market promotion of the products and country-wide exhibitions. Not only can 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", "Government Administration System", "Biometric Finger Print Identifying System" and "Embedded Operating System". The main application of "Embedded Operating System" is used in "LED Display Control System" and other products. 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.

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.

Liquid Capital and Financial Resources

As at 31 March 2003, the Group had bank and cash balances of approximately RMB121,483,000. The financial position of the Group remains sound and healthy. The Directors believe that the Group had sufficient financial resources to meet the needs of undertaking and operating capital.

Prospects

The PRC's economy is expected to grow continuously in 2003. It would bring about a continuous and stable demand for development of electronic communication by the government-related entities.

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

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

SHARE OPTION SCHEME

Up to 31 March 2003, the Company has not granted any option pursuant to its share option scheme adopted on 25 October 2000.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, 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 Topsoft Investment Company Limited ("Topsoft Investment")	286,000,000 ^{(1),(3)}	42.30%
Labour Association of Top Development	344,500,000 ^{(1),(4)}	50.95%

NOTES:

1. These shares are domestic shares of the Company.
2. Top Development holds 5.77% direct interest in the Company. Top Development owns 34.96% of Topsoft Investment, which owns 40.38% of the Company. Topsoft Investment owns 82% of Sichuan Top Computer Company Limited ("Top Computer"), which owns 1.92% of the Company. Top Development owns 80% of Chengdu Top Information Network Engineering Company Limited, which owns 1.92% of the Company. Top Development owns 60% of Chengdu Tuoan Sci-Tech Information Company Limited, which owns 0.96% of the Company.
3. Topsoft Investment owns 82% of Top Computer, which owns 1.92% of the Company. Topsoft Investment's direct interest in the Company is 40.38%.
4. The Labour Association of Top Development owns 34.39% of Top Development. As to Top Development's interest in the Company, please see note 2 above.

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 SECURITIES

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

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

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 three members, namely two independent non-executive Directors, Professor Yang Ji Ke and Mr. Li Ming Shu, 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 2003 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.

By order of the Board

Li Zheng Bin

Chairman

Chengdu, the PRC, 13 May 2003