

CAPINFO Capinfo Company Limited

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

Annual Report **2001**



Characteristic 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 gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website (www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

This annual report, for which the directors (the “Directors”) of Capinfo Company Limited (the “Company” or “Capinfo”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“Listing Rules”) 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: (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

	<i>Page</i>
Corporate Information	3
Chairman's Statement	5
Comparison between Business Objectives and Actual Business Progress	7
Management Discussion and Analysis	11
Directors, Supervisors, Senior Management and Employees	17
Directors' Report	22
Supervisors' Report	32
Auditors' Report	34
Consolidated Income Statement	36
Consolidated Balance Sheet	37
Balance Sheet	38
Consolidated Cash Flow Statement	39
Notes to the Financial Statements	41
Financial Summary	64
Notice of Annual General Meeting	65

Corporate Information

Registered Office	No. 11 Xi San Huan Zhong Road Beijing 100036 The People's Republic of China (the "PRC")
Principal place of business in Hong Kong	Rooms 3705-6 37th Floor, Gloucester Tower The Landmark Central Hong Kong
Principal place of business in the PRC	7th Floor A Corporate Square No. 35 Financial Street Xichang District Beijing, PRC
GEM Stock Code	8157
Website address	www.capinfo.com.cn
Company Secretary	Mr. LO Wai Tat, Andrew, ACCA, AHKSA (盧偉達先生)
Compliance Officer	Ms. ZHANG Yan (張延女士)
Qualified Accountant	Mr. LO Wai Tat, Andrew, ACCA, AHKSA (盧偉達先生)
Audit Committee	Mr. WONG Ying Ho, Kennedy (Chairman) (黃英豪先生) Mr. NG Kin Fai, Francis (Member) (伍健輝先生)
Authorised Representatives	Ms. ZHANG Yan (張延女士) Mr. LO Wai Tat, Andrew, ACCA, AHKSA (盧偉達先生)

Corporate Information

**Authorised person to accept service
of process and notice**

Kwok & Yih (in association with Andersen Legal)

**Hong Kong share registrar
and transfer office**

Hong Kong Registrars Limited
2nd Floor
Vicwood Plaza
199 DesVoeux Road Central
Hong Kong

Principal Bankers

Bank of China
8 Ya Bao Road
Chaoyang District
Beijing, PRC

Industrial and Commercial Bank of China
Tower A, Zhong Jian Building
15 Sanlihe Road
Haidian District
Beijing, PRC

Chairman's Statement



On behalf of the board of directors (the “Board”) of Capinfo Company Limited (“Capinfo” or the “Company”), we hereby present the Annual Report of Capinfo and its subsidiaries (the “Group”) for the year ended 31st December, 2001.

2001 was a challenging year to Capinfo. With concerted effort of staff and strong support from all parties, Capinfo achieved significant progress in various core businesses and was successfully listed on GEM on 21st December, 2001. The amount of the funds raised also topped all new issues in GEM during that year.

Capinfo constructs, owns and operates the electronic information exchange platform – Capital Public Information Platform (“CPIP”) as well as numerous major information application projects. With its development in e-Government, e-Commerce and internet professional services, Capinfo has built up an image of excellent enterprise as a “Contractor of Digital Beijing” and become a leading provider of e-Government, e-Commerce and network infrastructure services, and has actively participated in Beijing Government’s information technology development.

While gaining progress in the business, Capinfo unceasingly enhances its ability in research and development and strengthens its internal control. Based on Beijing Digital Olympic Action Plan and the needs of the Chinese Government to accelerate e-Government throughout the country, Capinfo’s research and development department has launched various researches, among which “City Digitalization Framework and Key Technology” has made an important breakthrough.

Chairman's Statement

In June of 2001, Capinfo was formally accredited by international quality bodies (UK's UKAS crown logo and USA's RAB certificate). In October of 2001, Capinfo was awarded the title of Grade One Computer Information System Integrator by Accreditation Office of Computer Information System Integration of Ministry of Information Industry. This greatly helps to strengthen the quality control of Capinfo's products and services as well as enhance customers' confidence and increase its market share.

To become a leading "Contractor of Digital Cities" is Capinfo's goal with unremitting efforts. After China's accession to World Trade Organisation ("WTO"), Capinfo has to face increasingly intense business competition. In a time when opportunities come along with challenges, Capinfo will fully utilize its abundant experience and competitive edge accumulated in building "Digital Beijing", capture the business opportunities arising from the Olympic Game, explore its market across the nation, and strive for greater return for the shareholders, investors and staff alike.

On behalf of the Board, I would like to extend my sincere gratitude and appreciation to the shareholders and staff for their support and hard work during the year.

Dr. CHEN Xinxiang

Chairman

Beijing, the PRC

15th March, 2002

Comparison between Business Objectives and Actual Business Progress

From 12th December, 2001 to 31st December, 2001

Products and services launching

Business objectives	Actual business progress
<ul style="list-style-type: none"> e-Government technology service 	
e-Commerce platform -	
1. the completion and service launch of the government online procurement system	The Group nearly completed Stage III of the government online procurement system at the end of December. As of the end of 2001, the Government has released various messages for public bidding on this system.
2. the launching of online office software system, that is based on the browser server model, for an existing e-government project for Dongcheng District of Beijing.	The Group developed this online office software system in December, which is scheduled to operate in the beginning of 2002.
<ul style="list-style-type: none"> e-Commerce technology service 	
e-Commerce platform -	
1. the completion of i-Service phase 1 which is a software platform enabling enterprises to develop internal application. It will be provided to customers as a component of a project and not for sale as an independent product;	The Group successfully completed the development plan at the end of December.
2. the launching of payment source software product which serves as a medium between banks' settlement or other systems for the exchange of information	The Group completed the development of the softwares.
3. to provide communities in Beijing with e-business platform service based on community network	The Group began to provide e-Commerce platform service in "Community Services Information Portal" (www.bjcs.gov.cn) at the end of December.

Comparison between Business Objectives and Actual Business Progress

From 12th December, 2001 to 31st December, 2001

Business objectives	Actual business progress
4. the completion of CA phase II facilities and the commencement of issuing Digital Certificate	The Group completed phase II project. As of the end of December, approximately 50,000 digital certificates for enterprises and individuals were issued.
5. the completion and launch of Web application security software, a middleware for e-Commerce participants	As of the end of December, the security software was used in four government department information systems including “Haidian Park System” of Zhongguancun Sei-Tech Dept Management Committee, etc.
6. the establishment of a call centre and its functions	The Group set up a call centre, which is expandable, with about 70 seats at the end of December, aiming at serving the customers of social Security Information System, Municipal Community Services Information System and Beijing e-Commerce City.
7. HFC broadband accessing products and solutions (including a cable modem and a community network management system developed by the Group) for due transmissions and exchange of information on cable network	The Group provided its products and solutions after testing by National Broadcast and Television Quality Control Centre for application in the construction of the broadband network of Yuxin Garden zone.
8. the completion of broadband community network	At the end of December, the Group completed the construction of the broadband network of Yuxin Garden zone.

Comparison between Business Objectives and Actual Business Progress

From 12th December, 2001 to 31st December, 2001

Sales and Marketing

Business objectives	Actual business progress
1. to promote e-Government system and solution to the Group's customer base relating to the Beijing-China Project	As of the end of December, the Group secured orders from Beijing Planning Committee and other departments for the construction of e-Government website system.
2. to promote BJCA Digital Certificate service in cooperation with Beijing's government agencies	As of the end of December, the Group issued more than 5,000 certificates for enterprises in cooperation with various government agencies.
3. to leverage on the existing user base of the Beijing Community Service System to form a base for the promotion of community e-commerce project	The Group negotiated cooperation projects with various service enterprises such as securities agents, network, domestic education and entertainment enterprises.
4. to expand the Group's marketing coverage to other cities in the PRC by recruiting additional sales agents	The Group selected three partners from other provinces, with a view to jointly bidding for the local city digitalization projects
5. to continue to seek and form strategic partnerships with major financial institutions, enterprises, major system integrators and nationally and internationally renowned IT companies	The Group established strategic alliance with Microsoft etc.

Comparison between Business Objectives and Actual Business Progress

From 12th December, 2001 to 31st December, 2001

Research and development

Business objectives	Actual business progress
<ul style="list-style-type: none"> e-Government technology service 	
<ul style="list-style-type: none"> e-Commerce platform - 	
<ol style="list-style-type: none"> the development of a software platform for electronic information exchange using XML; 	The Group successfully completed the development, with a view to using the platform for the Medical Insurance Information System.
<ul style="list-style-type: none"> CSCW technology 	
<ol style="list-style-type: none"> to develop distributive computing scheme based on Java, which is a type of computing technology in which different components and objects forming an application may be located on different computers and connected by a network; 	The Group completed the project proposal for the distributed computing scheme relating to the e-Government application software platform.
<ol style="list-style-type: none"> to develop intelligent search engine technology 	The Group successfully developed the first version. After upgrading two previous versions, as of the end of December, this technology was used in numerous e-Government portal.
<ol style="list-style-type: none"> the research and development of CSCW technology as a software development tool for applications like video conferencing or long distance education 	The Group developed CSCW proto type-based system, including work flow system and multi-media conferencing system. As of the end of December, the R&D Centre was in the process of repeated testing and fine-tuning.
<ul style="list-style-type: none"> Internet technology services 	
<ol style="list-style-type: none"> the development of built-in cable modem, CMTS and network resources management system and other related technologies 	The Group developed the products and solutions. As of the end of December, they were perfected after repeated testings and improvements.

Management Discussion and Analysis

Financial Review

The Group's revenue was approximately RMB150 million for the financial year ended 31st December, 2001, representing a significant growth of 200% over the previous year. Such significant growth was attributable to both e-Government and e-Commerce technology services. Both of them increased by about two times when compared to those in 2000. And they were resulted from the major projects for the Beijing Municipal Government carried out and the broadening of our customer base in e-Commerce sector.

The Group recorded a relatively high gross profit margin of 29% in 2001 as against 24% in 2000. The Group's gross profit was approximately RMB43 million for the financial year ended 31st December, 2001, representing a remarkable growth of 259% over the previous year. Such remarkable growth was mainly attributable to the recognition of gross profit arisen from design and implementation of the Beijing Social Security Information System - Medical Insurance Information Sub-system and implementation of the Beijing Municipal Community Services Information Network System.

Net loss for the financial year ended 31st December, 2001 was approximately RMB9.9 million as against approximately RMB6.2 million in the previous year, largely as a result of our increasing effort in research and development, 103 out of 421 staff at 31st December, 2001 were professionals in research and development which increased by 78% as against 60 professionals in research and development employed at 31st December, 2000. The salaries of our staff were determined in accordance with their performance and market situation and the Group provided them with other benefits including retirement benefits and share options.

The current ratio of the Group was increased to 2.1 as at the financial year end from 1.7 at the end of the last financial year. The gearing ratio, defined as the ratio of total borrowings to total assets, was decreased to 0.01 as at the financial year end from 0.03 at the end of the last financial year. Both current ratio and gearing ratio reflected the health financial position of the Group and which was strengthened with the net proceeds from the listing on GEM in December 2001. Worth noting was that cash balances amounted to RMB455 million while loan balance amounted to only RMB5.5 million as at 31st December, 2001. The loan was secured by pledge of the PRC treasury bonds held and will be fully repaid in 2002.

Business Review

Capital Public Information Platform

Capital Public Information Platform ("CPIP") is a basic information exchange platform for various major digitalization application projects in Beijing. As a Metropolitan Area Network ("MAN") exchange platform using IP-VPN technology, this platform is constructed, owned and operated by Capinfo. In 2001, Capinfo implemented its expansion plan based on CPIP. As of the end of 2001, nearly 1,000 kilometres of optic-fibre cables were laid with access to 39 government units in



Management Discussion and Analysis

Beijing. While connecting the optic-fibre cables, Capinfo also completed upgrading and debugging network environment of 18 district governments and 15 government authorities in Beijing. This expansion aimed at linking up almost a hundred Beijing's key government agencies via CPIP making the whole office workflow and document transmission of Beijing Government to rely solely on this information exchange platform within the coming two years.

As of the end of 2001, Capinfo built various infrastructure such as Beijing digital authorization centre, call centre, hundreds of connecting nodes at city, district and street levels. Thanks to these business resources, Capinfo can fully utilize its advantage in CPIP to provide a wide range of business for the users of e-Government and e-Commerce, such as digital certificate service, call centre service, online payment service and e-Community service.

e-Government technology service

Beijing Social Security Information System – Medical Insurance Information Sub-system

In 2001, Capinfo completed part of the Medical Insurance Information Sub-system including the setup of data control centre and disaster prevention centre; as well as the design, programming and testing of software modules for payment of medical insurance fund and scrutiny of expenses. As for hospital information system, Capinfo successfully developed the “software for examination of medical insurance expenses” which is the first such system in achieving the analysis and examination of medical insurance expenses at hospital-end in China. Capinfo installed this software and conduct relevant training in all social security designated hospitals in Beijing. In order to enhance the transmission efficiency, Capinfo improved network environment for more than 30 medical insurance agencies and more than 200 designated hospitals in the Level 2A category.

Beijing Medical Insurance Information Sub-system developed by Capinfo has basically reached its design requirements. This system efficiently supports a medical insurance business covering more than 2 million individual participants and almost 20,000 participating units. The target of 2 million participants set for 2001 has already been exceeded. To guarantee smooth operation of the whole system, Capinfo also set up a guarantee system for medical insurance information system technology service.

By providing a package of medical insurance information system solution for data processing, development of software module, network security transmission and hospital information system, Capinfo has created a favourable environment for centralized treatment of five kinds of insurance, i.e. retirement, injury at work, unemployment and birth. The safe operation of medical insurance information system is a reliable cornerstone for Capinfo to secure the five kinds of insurance within and outside Beijing.

Citizen Card Project

As the connecting project of the Beijing Medical Information System, the Citizen Card (a smart card) contains information such as the number of identity card and medical insurance identity. By the end of 2001, the Citizen cards issued by Capinfo accumulated to 20,000. During the trial period, Capinfo adjusted and improved the outpatient flow and streamline identification and trading process.

Management Discussion and Analysis

Beijing-China Project

“Beijing-China” (<http://www.beijing.gov.cn>), linking to more than a hundred websites of government departments, is an integral part of the Digital Beijing. By the end of 2001, the click rate of “Beijing-China” exceeded 67 million person/time and the number of homepage browsers reached 0.77 million person/time. Through “Beijing-China”, Capinfo set up more than 4,000 e-mail accounts for various government units as well as virtual hosting service for nearly one hundred units. The Capinfo also received orders for solution of e-Government System for Dongcheng district government of Beijing through “Beijing-China”.



Beijing Municipal Community Services Information Network System

The Beijing Municipal Community Services Information Network System is another major information application project of Beijing built, owned and operated by Capinfo. The network system is attached to the platform of CPIP servicing residents of the Beijing communities. The system fulfils not only management of service resources of communities in Beijing but also aggregate different business enterprises to provide financial, educational, security, leisure, medical, household and delivery services to the community residents.

In 2001, Capinfo carried out the second phase construction work under the contract entered with the government. That is expanding the geographical areas from eight districts in urban Beijing to ten more district/counties and 41 street offices affiliated to them in the remote countryside. Capinfo laid out a number of cables for the network and completed construction work of 51 community site stations and 41 street hotline call centres.

Capinfo substantially improved the operating data structure, website pages, searching engines and statistic tools of the “Community Service Information Website” (www.bjcs.gov.cn). Based on the urban street social service centres, Capinfo, using the system network, provides supporting service for security, medical emergency, education, stock trading, household and real estate brokerage. By the end of December, negotiations were underway with several servicing companies.

e-Commerce technology service

Online payment platform

In order to serve the customers of Beijing e-Commerce City (www.beijing.com.cn) better, Capinfo continued to develop types of credit cards and geographical areas for the use of payment. By the end of 2001, there were more than 60 kinds of credit cards and 16 domestic commercial banks supported by Beijing e-Commerce City.



Management Discussion and Analysis

To enhance the efficiency of operation, Capinfo restructured the online payment business of Beijing e-Commerce City. Version upgrade for the website of Beijing e-Commerce City to meet the needs of business was also completed alongside with expansion of B2B business. At the end of December, Beijing e-Commerce City provided service to almost 150 internet service providers.

Logistic Delivery

Capinfo considered logistic delivery as an important part of the e-business service. Working with the Beijing Shuangchen Express Company, Capinfo developed courier logistic delivery management system which supports online order placing, member management and price management. In 2001, Capinfo added three major functions to the system, namely online payment, security identification and orders channel in and channel out. Promotional activities were conducted three times in Beijing, Shanghai and Guangzhou respectively.

Digital Certificate

In March, Capinfo established BJCA. Major business of the company is to build, operate and maintain software and hardware systems used for digital certification as well as developing application software, promoting digital certificate service and to provide security solutions. Capinfo completed the second stage construction work of BJCA in June. In July 2001, BJCA became the first digital certification centre in China with acquiring the ISO9001 certification.

Actively promoting wider use of digital certificate, BJCA had developed many security solutions based on digital certificate. By the end of 2001, security solutions based on digital certificate constructed by BJCA included e-government security solution, enterprise security solution, online share trading security solution and designated certificate service. Applications of digital certificate were effectively promoted by BJCA to many industries.

BJCA embroidered the digital certificate of a company in the soft copy of the company's code certificate. In corporation with the government, BJCA launched this application in "Haidian online office system" and confirmed the safeness of transmitting declared information online by the enterprises. By the end of 2001, BJCA had issued digital certificates to more than 2,000 enterprises that used the system. In addition, BJCA set up digital certificate reception points at 15 district/county tax bureaus, together with digital certificate service to over 1,000 online tax reporting enterprises.

In regard to e-Commerce application, BJCA launched services focusing on online stock trading, online payment, and B2B e-Commerce. Currently, the company provides digital certificate security service to a number of online trading systems.

Research and Development

Positioning itself as a top IT research and development entity in the country, the R&D centre of Capinfo had forged alliance with reputable R&D institutes and universities in China and overseas to ensure it will enjoy competitive edges of R&D over the long term.

Management Discussion and Analysis

Research and development projects of Capinfo in 2001 included: Broadband and multimedia access technology based on HFC structure, Key technology of e-Commerce platform of Beijing Municipality-intelligent search engine, Computer supported and cooperative work. The R&D centre launched “Product for XML e-information exchange platform” to meet the needs of government for digital Olympic action plans and promoting e-government in Beijing. The product has been used for the online government procurement system; where as “online office software system based on browser service model” has been used for e-government project for Dongcheng district government in Beijing.

1. *Broadband and multimedia access technology based on HFC structure*

The research and development centre completed the design model formation for PCI Cable Modem, which it owns the proprietary intellectual rights. The modem passed the environmental test and electric magnetic compatibility test fulfilling the industry standard set by Ministry of Information Industry for built-in modem. The Cable Modem has been applied to the broadband access project of Yuxin Garden.

The Broadband access Network Management software is built upon CORBA technology, it incorporates equipment management, user management and application management framework and consists of Network Tube Function Area defined by international standard organizations: Placing management, function management, safety management, charging management and malfunction management. Development of the first version of Broadband access Network software was completed in 2001 and was used the actual operation of the HFC access network in Yuxin Garden.

2. *Research on Intelligent search engine*

The research and development centre developed a trainable Chinese word segmentation algorithm, a full-text retrieval software CapIndex for both Chinese and English and an open domain Chinese summarization system based on the VSM theory with success. The intelligent search engine is now in use on websites like www.beijing.gov.cn etc.

3. *CSCW Studies*

With efforts made by the R&D Centre, the project has led to the development of a series of systems that meet the WFMC standard. These include the workflow system which consists of a workflow server, graphics process defining tool and user-task management tool and other auxiliary tools; multicast-based multimedia conference system which consists of a Conference management server, streaming-media interactive service, Instant message service, and SmartBoard Sharing system and a CSCW prototype system, which integrates perfectly the workflow system and conference system, while simultaneously provides support for dispatch of other external applications.

In 2001, the R&D Centre cooperated with Digital Media Research Centre of Graduate School, Chinese Academy of Science to jointly establish a laboratory to cater for their research needs. At the same time, according to the Group's strategic development goals, the R&D Centre has also strengthened its internal management, accelerated its pace in product development and strengthened its connections with its peers at home and abroad through exchange programs.

Management Discussion and Analysis

Future Prospects

In 2002, the Group will strive for business growth and develop a national digital-city market in an orderly manner. The Group will increase its investment in research and development, introduce to the market new software and hardware products under its own brand names, and to further improve its research and development capability. In conjunction with the projects associated with Digital-Olympic Games and aiming at consolidating its existing market position, the Group will also explore new markets such as the wireless, multi-linguistic service and credit rating businesses.

The Group's development highly relies on a team of sophisticated talents. Capinfo is striving for the building up of a pragmatic, yet innovative and dynamic culture. Capinfo's employees recognize and abide by the following principles. They are – market-oriented, self-motivation, enthusiasm, goal-focusing, solid technologies, stringent processes, in-depth understanding of the situation on site, and unite together with mutual support. We will dedicate ourselves in building up a public image: "Capinfo" is a brand name which represents high quality service in informatization of cities, high quality working team and a leading enterprise with high returns.

After China's accession to the WTO and successful application for hosting the Olympic Games, the proposed initiatives for a Green, Scientific and Humanitarian Olympic Games have brought in tremendous development opportunities for Capinfo. The Group will further enhance its competitive market position in Beijing by capturing the business opportunities arising from the Digital-Olympic Games, and to strengthen its core competitive edge as a digital city based application service provider. Meanwhile, the Group will gear up its efforts in expanding its market across the country, and by taking advantage of its extensive digital-city construction and operation experiences, enter into the national digital-city market with its strengths in solutions design, project implementation and consulting services.

Directors, Supervisors, Senior Management and Employees

DIRECTORS

Executive Directors

Dr. CHEN Xinxiang (陳信祥博士), aged 59, an executive Director and the chairman of the Board. Dr. Chen joined the Group in January 1998 as a vice president and has been responsible for the overall strategic planning of the Group since then, became an executive Director in May 2000, and became the chairman of the Board in July 2001. He graduated from the Department of Precision Instrument of the Tsinghua University in 1966, majoring in optical instrument. In 1986, Dr. Chen received a doctorate degree from the Faculty of Electrical Engineering of the Pennsylvania State University in the United States. Prior to joining the Group, Dr. Chen had served successively as deputy chief engineer and chief engineer of the Beijing Economic Commission, a government entity, and as the chief representative of SAP China.

Dr. WANG Xu (汪旭博士), aged 33, an executive Director since July 2001 and the Chief Executive of the Company. He joined the Company in September 1998 and was responsible for the administration and execution of the business strategies of the Group. Dr. Wang received his doctorate degree at the Faculty of Technical Economics of Tsinghua University in the PRC in 1999.

Ms. ZHANG Yan (張延女士), aged 48, an executive Director since July 2001 and Vice Chief Executive and the Chief Accountant of the Company. She joined the Group in March 1998 and has been responsible for the financial management of the Group. Ms. Zhang received a bachelor's degree from the Faculty of Commerce and Economy of the People's University in the PRC in 1985. She has over 25 years' experience in finance and accounting in the PRC and Hong Kong, and was once the head of corporate finance department of the Stone Group, manager of finance department of the Hong Kong Stone Company and deputy director of corporate finance of the Stone Group prior to the joining of the Group.

Dr. WU Bo (吳波博士), aged 44, an executive Director and Vice Chief Executive of the Company since July 2001. He joined the Group in August 2000 and is responsible for overseeing the Company's sales and marketing functions. Dr. Wu graduated from the Faculty of optic engineering of Huazhong University of Science and Technology in 1982 and 1984 with a bachelor and a master degree of science respectively. He received a doctorate degree in 1991 in the Doctor Student Training Program co-organised by the Bonn University of Germany and the Dalian University of Technology, and his research subject was optic instruments and applied physics. He worked as a postdoctoral scholar in the Physics Postdoctoral Scholar Circulation Station of Tsinghua University from 1991 to 1993. Dr. Wu has served successively as head of international department of Jitong Communication Co. Ltd., sales manager of the CLI Company, USA, the General Manager of Beijing Corgi Auto Services Equipment Co., Ltd. and the Chairman of Beijing Taigu'er Mechanical and Electrical Technology Co., Ltd prior to the joining of the Company.

Directors, Supervisors, Senior Management and Employees

Non-executive Directors

Mr. GAO Fengqian (高峰倩先生), aged 59, a non-executive Director of the Company and currently the Chairman and General Manager of the Beijing Gehua Cable TV Network. Mr. Gao joined the Board in February 1999. He graduated from the College of Communications and Munitions in 1966, specializing in wireless technology and has over 35 years of experience in business operation and management.

Mr. LI Ye (李擘先生), aged 65, a non-executive Director of the Company. Mr. Li joined the Board in January 1998. He graduated from the Automatic Control Faculty of the Tsinghua University in 1961 and was the Commissioner for Computer of the Ministry of Electronic Industry. He has over 42 years of experience in business operation and management.

Mr. ZUO Feng (左風先生), aged 42, is a non-executive Director and currently the Deputy Head of the Data Communications Bureau of the China Telecommunication Group Corporation of the PRC. Mr. Zuo joined the Board in January 1998. He graduated from the School of Distance Learning of the Beijing Post and Telecommunications University in 1986, specializing in Telephone Exchange and was awarded with a master degree in business administration in 1998 by the School of Economics and Management of the Tsinghua University. He has over 15 years of experience in business operation and management.

Mr. FAN Dazhi (樊大志先生), aged 37, became a non-executive Director in July 2001. He graduated from the Faculty of Accounting of the Dongbei University of Finance and Economics with a bachelor degree in 1987. Currently he is a director and deputy general manager of BSAM. Mr. Fan has extensive experience in financial management, investment and financing. He has served successively as a deputy manager of the accounting department, a deputy manager of the fund management department, and the General Manager of the investment bank department of Beijing International Trust and Investment Company, and deputy head of the Beijing Offshore Financing and Investment Management Center.

Mr. QI Qigong (戚其功先生), aged 40, became a non-executive Director in July 2001, and is currently the deputy general manager and head of finance department of China Telecom Beijing Corporation. Mr. Qi graduated from the Capital University of Economics and Business with a master's degree. He has extensive experience in finance and corporate management, and has served successively as the assistant to the head of the Beijing Telecom Bureau, deputy head of the Finance Office and assistant to director of the Beijing Telecommunication Administration, as well as manager assistant, manager of finance department and deputy general manager of Beijing Telecom Company.

Mr. PAN Jiaren (潘家任先生), aged 61, joined the Group in July 2001 as a non-executive Director. Mr. Pan graduated from the Faculty of Physics of Wuhan University in the PRC in 1963 with a bachelor's degree. He has over 38 years experience in broadcasting and television, and was granted several times the Award of Technology Advancement by the Ministry of Broadcasting and Telecommunication of the PRC (MBT). Mr. Pan has served successively as the director of the Research Department in Aerial Design under the Design Institute of MBT, the director of Shuang Qiao Equipment Manufacturing Plant of MBT and the head of Aerial Specialist Committee under the Science and Technology Committee of MBT. Mr. Pan has successively engaged in the construction of radio station projects in a number of countries including Albania, Vietnam and Zambia. Currently, he is the Chairman of Beijing Sino-Sky.

Directors, Supervisors, Senior Management and Employees

Ms. LIANG Mei (梁眉女士), aged 60, is a non-executive Director. She joined the Group in July 2001. Ms. Liang graduated in 1967 from the Chemical Faculty of Beijing University in 1967. She has served successively as a technician of Beijing Shuang Qiao Agricultural Chemical Plant, the deputy director of Beijing Chemical Reagent Plant, assistant inspector of the Beijing Information Work Office and currently the head of the Beijing Municipal Citizen Card Administration Centre. She has over 34 years of experience in business operation and management.

Independent non-executive Directors

Mr. WONG Ying Ho, Kennedy (黃英豪先生), aged 39, is an independent non-executive Director. He joined the Group in December 2001. Mr. Wong has substantial experience in the legal field and is currently the senior partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co. in Hong Kong. He is the director of a number of listed companies in Hong Kong, including Coastal Realty Group Limited, Far Eastern Polychem Industries Limited (Growth Enterprise Market), Great Wall Cybertech Limited and Raymond Industrial Limited. He is also an attesting officer appointed by the Ministry of Justice of the PRC, the chairman of China Champ Group, as well as a member of the Election Committee of Hong Kong.

Mr. NG Kin Fai, Francis (伍健輝先生), aged 43, is an independent non-executive Director. He joined the Group in December 2001. Mr. Ng has substantial experience in areas such as publication of high tech magazines. He is currently the Director and General Manager of Technology Exchange Limited which publishes magazines such as International Broadcast Information, International Broadband Network, International Networks & Multimedia, International Instrumentation & Automation, and International Medical Devices, all of which are very well recognised in the PRC Technology Exchange Limited also jointly publishes in English an academic and global publication, Chinese Journal of Electronics with the Chinese Institute of Electronics.

All the Independent non-executive Directors of the Company are independent to the Company and its Initial Management Shareholders.

Qualified Accountant

Mr. LO Wai Tat, Andrew (盧偉達先生), aged 29, is the Vice Chief Financial Officer and the Company Secretary of the Company. Mr. Lo graduated from the School of Accountancy of the Chinese University of Hong Kong in 1994. Mr. Lo is an associate member of the Hong Kong Society of Accountants. He was an audit manager of an international accounting firm before joining the Company and he possesses over 5 years working experience in auditing and financial management.

Directors, Supervisors, Senior Management and Employees

SUPERVISORS

Mr. ZHANG Zhenlong (張振龍先生), aged 26, a Supervisor of the Company. Mr. ZHANG joined the board of supervisors of the Company on 30 June 2000. Mr. Zhang graduated in June 1998 from the Accounting Faculty of China Chongqing Institute of Technology with a bachelor degree, and has over 3 years of management experience.

Ms. LIU Jian (劉健女士), aged 50, a Supervisor of the Company. She was appointed to be a supervisor of the Company on 25 July 2001. Ms. Liu graduated in 1995 from the Shanghai Finance University with a Master Degree. Currently a director and deputy general manager of BSAM, Ms. Liu has served as head of Jiangxi Pharmaceutical Factory, head of Jiangxi Medical Equipment Factory, Deputy General Manager and chief economist of Beijing Wandong Medical Equipment Company, deputy chairman of the board of directors and financial controller in Beijing Wandong Medical Instrument and financial controller in Beijing Offshore Financing And Investment Management Centre, aggregating extensive experience in finance and management.

Mr. CHENG Huajun (程華軍先生), aged 29, a Supervisor of the Company. He joined the Company in April 1999 and was appointed as a supervisor of the Company on 30 June 2000. Mr. Cheng graduated from the Tsinghua University in 1995 with a degree in engineering.

SENIOR MANAGEMENT

Mr. LU Shouqun (陸首群先生), aged 65, joined the Company in January 1998. He was appointed as a director as well as the president of CIHC in January 1998. In July 2001, he resigned from the position of executive director and president of the Company due to his senior age. He is currently the chief officer in charge of the Beijing Network Multimedia Research Laboratory. Mr. Lu graduated from the faculty of Electrical Engineering of Tsinghua University in 1958. Prior to joining the Company, Mr. Lu was the Deputy Manager of the Associated Office of the State Council Office of Digitalisation, Chairman of the Board of Jitung Company and Manager of The Office for the Promotion Beijing Electronic Industry. Mr. Lu has over 43 years management and administration experience.

Mr. SHAO Jianping (邵建平先生), aged 49, joined the Company in April 2001 and he currently is a Vice Chief Executive of the Company. Mr. Shao graduated from the Faculty of Electronic Engineering of Tsinghua University in 1977. Prior to joining the Company, Mr. Shao was the General Manager of Beijing 3rd Computer Plant's research department, General Manager of Beijing 3rd Computer's Dinghuo Company, and the Vice General Manager of Beijing 3rd Computer's Shanhai Company. Mr. Shao has over 24 years management and administration experience.

Directors, Supervisors, Senior Management and Employees

Mr. ZHUANG Zixin (莊梓新先生), aged 66, joined the Company in February 1999 and is currently the vice president of the Beijing Network Multimedia Research Laboratory. Mr. Zhuang graduated from the Beijing Aviation Institute in 1957. Prior to joining the Company, Mr. Zhuang was the Vice Deputy Head of the Beijing Institute of Electronics, Associate Executive of the Shenzhen City Science Consultative Committee, Chairman of the Shenzhen Computer Industry Chamber, senior member of the International Electrical and Electronic Engineering Club (IEEE).

Mr. ZHENG Zhiguang (鄭志廣先生), aged 46, joined the Company in March 2000 and he currently is the manager of the Company's Social Security Division. Mr. Zheng graduated from the faculty of computer science of the Beijing University of Aeronautics and Astronautics in 1983 with a bachelor degree. Prior to joining the Company, Mr. Zheng was the General Manager of Beijing Custer Technology Development Company Limited.

Mr. CHEN Dengwei (陳登偉先生), aged 27, joined the Company in May 1999 and he currently is the manager of the Company's e-Community Division. Mr. Chen graduated from the Tsinghua University in 1996 with a bachelor degree. Mr. Chen also holds a master of engineering degree concentrating in automation from Tsinghua University in 1999. Mr. Chen joined the Company in 1999 and has participated in the research and development of HFC broadband multimedia access technology for the Beijing Network Multimedia Laboratory.

Mr. SUN Jiangning (孫江寧先生), aged 28, joined the Company in February 1999 and is currently the manager of the Company's e-Commerce Division. He graduated from the faculty of Automation of the Northern Industrial University with a master degree in 1998. Prior to becoming the manager of the e-Commerce Division, Mr. Sun served in the Company's website Division.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31st December, 2001.

REORGANISATION AND LISTING

China Information Highway Corporation (“CIHC”), the predecessor of Capinfo Company Limited (the “Company”), was established in Beijing, the People’s Republic of China (the “PRC”) on 23rd January, 1998 as a limited liability company. Following the restructuring of CIHC in July 2000, CIHC was reorganised into the Company which was established in Beijing, the PRC on 14th July, 2000 as a joint stock limited company.

On 31st October, 2001, the China Securities Regulatory Commission issued an approval consenting the Company to issue overseas-listed foreign shares (“H shares”) and list on the Growth Enterprise Market (the “GEM”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Subsequently, the Company’s H Shares were listed on GEM on 21st December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and engaged in installation of network systems, network design, consultancy and related technical services and sales of computers, related accessories and equipment. The Company was also engaged in the provision of internet services. Pursuant to an agreement dated 5th August, 2001, the Company disposed of all the related equipment and facilities of its internet service provision business for a consideration of approximately RMB2.8 million. Accordingly, these operations were discontinued thereafter.

The principal activities of the Company’s subsidiaries are set out in note 11 to the financial statements.

An analysis of the Group’s turnover and contribution to operating loss is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 is set out in the consolidated income statement on page 36 of the annual report.

The directors do not recommend the payment of dividend.

FINANCIAL SUMMARY

A summary of the combined results of the Group for each of the two years ended 31st December, 2000, the consolidated results of the Group for the year ended 31st December, 2001 and the assets and liabilities of the Group as at 31st December, 2000 and 2001 is set out on page 64 of the annual report.

Directors' Report

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred an aggregate of approximately RMB171 million in the acquisition of property, plant and equipment, which mainly comprised of the acquisition of computer and network equipment. Details of these and other movements in property, plant and equipment of the Group and the Company are set out in note 10 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2001 are set out in note 11 to the financial statements.

BORROWINGS

Bank borrowings of the Group and the Company which are repayable within one year are classified as current liabilities as detailed in the balance sheet. No interest was capitalised by the Group during the year.

DIRECTORS AND SUPERVISORS AND SERVICE CONTRACTS

The directors and supervisors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Dr. Chen Xinxiang (<i>Chairman</i>)	
Dr. Wang Xu (<i>Chief Executive</i>)	(appointed on 25th July, 2001)
Zhang Yan (<i>Vice Chief Executive</i>)	(appointed on 25th July, 2001)
Dr. Wu Bo (<i>Vice Chief Executive</i>)	(appointed on 25th July, 2001)
Lu Shouqun	(retired on 25th July, 2001)
He Dongcai	(retired on 25th July, 2001)
Feng Jianhua	(retired on 25th July, 2001)

Directors' Report

DIRECTORS AND SUPERVISORS AND SERVICE CONTRACTS (continued)

Non-executive directors:

Gao Fengqian

Li Ye

Zuo Feng

Fan Dazhi

Qi Qigong

Pan Jiaren

Liang Mei

Independent non-executive directors:

Wong Ying Ho, Kennedy

(appointed on 6th December, 2001)

Ng Kin Fai, Francis

(appointed on 6th December, 2001)

Supervisors:

Zhang Zhenlong

Cheng Huajun

Liu Jian

(appointed on 25th July, 2001)

Lu Jia

(retired on 25th July, 2001)

All executive directors and supervisors have entered into service contracts with the Company on 6th December, 2001 for a term of three years subject to renewal by agreement for one or more consecutive terms of three years.

In accordance with the provisions of the Company's Articles of Association, the term of office of the directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the Companies Law in the PRC, the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, none of the directors' and supervisors' terms of office expire and all directors and supervisors continue in office.

Save as disclosed above, none of the directors and supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31st December, 2001, none of the directors, supervisors, or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Directors' Report

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Company's pre-IPO share option plan, the directors and supervisors of the Company have personal interest in share options which have been granted to them on 6th December, 2001 to subscribe for H Shares in the Company at an exercise price of HK\$0.48 per H Share exercisable within a period of ten years from the date of grant subject to certain restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares. A summary of these share options granted is as follows:

Name of director	Number of share options granted during the year and outstanding at 31.12.2001
Dr. Chen Xinxiang	1,309,750
Dr. Wang Xu	1,297,350
Zhang Yan	1,308,200
Dr. Wu Bo	1,261,700
Gao Fenqian	1,283,400
Li Ye	1,309,750
Zuo Feng	1,309,750
Fan Dazhi	1,244,650
Qi Qigong	1,244,650
Pan Jiaren	1,244,650
Liang Mei	1,244,650
Wong Ying Ho, Kennedy	1,241,550
Ng Kin Fai, Francis	1,241,550
	<hr/>
	16,541,600
	<hr/>
Name of supervisor	
Zhang Zhenlong	1,264,800
Liu Jian	1,244,650
Cheng Huajun	1,286,500
	<hr/>
	3,795,950
	<hr/>

Directors' Report

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (continued)

Save as disclosed above, at no time during the year was the Company or its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors and supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors and supervisors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, according to the register maintained under Section 16(1) of the SDI Ordinance, Beijing State-owned Assets Management Corporation Limited ("BSAM") owned 1,786,414,174 domestic shares in the Company which represents 62% of the issued share capital of the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001.

Directors' Report

SHARE OPTIONS

(a) Pre-IPO Share Option Plan

Under the Company's pre-IPO share option plan, share options (the "Pre-IPO Options") have been granted during the year and outstanding at the end of the year at an exercise price of HK\$0.48 per H Share, which is the placing price upon the listing of the Company's H Shares, exercisable within a period of ten years from the date of grant subject to certain restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares. These options granted were to recognise the past and present contributions of the grantee to the Group. A summary of these share options granted is as follows:

	Number of the Pre-IPO Options granted during the year and outstanding at 31.12.2001
Directors of the Company	16,541,600
Supervisors of the Company	3,795,950
Senior management of the Company	4,847,780
Senior advisors of the Company	3,929,250
Advisors of the Company	4,309,930
Other employees of the Company and its subsidiaries	35,500,890
Employees of Capnet Company Limited, a subsidiary of BSAM	1,547,520
	<hr/>
	70,472,920
	<hr/> <hr/>

(b) Share Option Scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 6th December, 2001, (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for H Shares in the Company with initial payment of RMB1 upon each grant of options offered and the options granted must be taken up with 14 trading days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of H Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; the closing price of H Shares on the Stock Exchange on the date of grant; and the nominal value of H Shares.

Directors' Report

SHARE OPTIONS (continued)

(b) *Share Option Scheme (continued)*

The share options are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the number of shares to be issued by the Scheme and other option scheme and the number of issued H Shares of the Company from time to time and no employee shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12 months period up the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued H Shares of the Company.

No option was granted by the Company under the Scheme since its adoption.

(c) *Over-allocation Options*

Pursuant to the placing and underwriting agreement dated 17th December, 2001, the Company and the State Social Security Fund Council of the PRC (the "Vendor") have granted options (the "Over-allocation Options") to the placing underwriters exercisable from time to time within 30 days from 17th December, 2001 to require the Company to issue up to an additional 96,836,579 new H Shares, and the Vendor to sell up to an additional 9,683,658 H Shares at HK\$0.48 per H Share, which is the placing price upon listing of the Company's H Shares.

The Over-allocation Options granted is for the purpose to stabilise the market price of H Shares of the Company on the Stock Exchange.

The fair value of the Pre-IPO Options and the Over-allocation Options granted in the current year measured as at the date of grant, 6th December, 2001 and 17th December, 2001 totalled approximately RMB8,880,000 and RMB213,000 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

- (a) an expected volatility of 2% based on the estimated volatility with reference to volatility from 21st December, 2001 to 31st December, 2001;
- (b) no annual dividends distributed out of earnings based on historical record;
- (c) the estimated expected life of the Pre-IPO Options granted is ten years. The interest rate at the date of grant of the options was 3.05% with reference to PRC Treasury Bonds; and
- (d) the estimated expected life of the Over-allocation Options is one month while the corresponding interest rate at the date of grant was 5.2% with reference to the Exchange Fund Notes.

SHARE OPTIONS (continued)

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including volatility of share price. Because changes in subjective input assumptions can materially affect the value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of share options and the Over-allocation Options granted during the year.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 27 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 27 to the financial statements. In their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) within the relevant cap amounts as agreed with the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 79% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 41% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 64% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 27% of the Group's total purchases.

None of the Company's directors, supervisors, their associates or any shareholder (which to the knowledge of the directors and supervisors, owned more than 5% of the Company's issued share capital) had any interest in the share capital of any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from its listing date to 31st December, 2001.

An audit committee was established on 6th December, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The two independent non-executive directors, Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis, have been appointed to the audit committee. Mr. Wong Ying Ho, Kennedy was appointed as the Chairman of the audit committee.

The first audit committee meeting was held on 14th March, 2002. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

Directors' Report

COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes with the Company or may compete with the business of the Group.

SPONSOR'S INTERESTS

Core Pacific-Yamaichi Capital Limited, its directors, employees or associates (as referred to in Note 3 to the Rule 6.35 of the GEM Listing Rules) did not have any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31st December, 2001.

Pursuant to the agreement dated 17th December, 2001, Core Pacific-Yamaichi Capital Limited has been retained to act as the Company's sponsor for the period up to 31st December, 2003 in return for a monthly advisory fee.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 28 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Dr. CHEN Xinxiang

Chairman

Beijing, the PRC

15th March, 2002

Supervisors' Report

To the shareholders,

During the financial year of 2001, the Supervisory Committee of the Company thoroughly implemented resolutions of the general meeting and performed its duties faithfully in accordance with the provisions of the Company Law and the Articles of Association of the Company. Adhering to the principles of safeguarding the state-owned assets, shareholders' interests and benefits of the staff, the Supervisors attended board meetings, acquiring first-hand information of the decision-making of the board on important issues and monitored effectively members of the board and the senior management in performing their duties.

The Supervisory Committee considers that:

1. The Company's operation for the year 2001 complied with the relevant regulations of the state and local governments and the Company's Articles of Association, particularly that in the face of the crushing of the Internet bubbles, the global economic downturn, and the unfavorable market environment persisted in the IT industry, the management of the Company was able to adjust its business strategy with a practical approach and implement an innovative management method to leverage on the Company's strengths and advantages. With unremitting efforts of the management, the Company was successfully listed and achieved satisfactory operating results for 2001;
2. The Directors and managers of the Company performed their duties in strict discipline for the development of the Company. They carried out their work diligently without violating any law or regulation, the Company's Articles of Association and had not conducted any activities which was against the interests of the Company;
3. Asset acquisitions and disposals of the Company were transacted at reasonable prices, there was no insides trading which prejudiced the interests of certain shareholders or caused any loss of assets of the Company;
4. The connected transactions of the Company were conducted on a fair and reasonable basis without jeopardizing the interests of the Company and its shareholders;
5. During the period, the Supervisory Committee co-operated positively with the Company's listing work to ensure its success. At the same time, its role in monitoring the management was strengthened by attending board meetings and participating in the decision-making process of the management, reviewing regularly the Company's financial statements and accounts. The Supervisors believe that the internal auditing and financial management of the Company were performed in strict accordance with the relevant accounting principles, the financial statements and accounts were prepared timely and properly and that no improper disclosures were identified; and

Supervisors' Report

6. The Supervisors have carefully examined the financial statements of the Company to be submitted to the Annual General Meeting and believe that during the reporting period, the operating results of the Company adequately reflect its state of affairs; all expenses and costs were incurred reasonably.

The Committee would like to extend its appreciation to all shareholders, directors and members of staff for their strong support of the Committee's work.

By order of the Supervisory Committee

LIU Jian

Chairman of the Supervisory Committee

Beijing, the PRC

14th March, 2002

Auditors' Report

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF CAPINFO COMPANY LIMITED

(established as a joint stock limited company in the People's Republic of China)

We have audited the financial statements on pages 36 to 63 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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.

Auditors' Report

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2001 and of the loss 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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 15th March, 2002

Consolidated Income Statement

For the year ended 31st December, 2001

	NOTES	2001 RMB'000	(Note 1) 2000 RMB'000
Turnover	3	149,745	49,854
Cost of sales		(106,528)	(37,804)
Gross profit		43,217	12,050
Other revenue		5,417	5,913
Research and development costs		(24,552)	(9,920)
Marketing and promotional expenses		(7,052)	(3,781)
Administrative expenses		(25,687)	(9,316)
Loss from operations	4	(8,657)	(5,054)
Interest on bank borrowings wholly repayable within five years		(695)	(973)
Gain on disposal of interest in an associate		747	–
Share of losses of an associate		(771)	(126)
Loss before taxation		(9,376)	(6,153)
Taxation	8	(916)	–
Loss before minority interests		(10,292)	(6,153)
Minority interests		359	–
Net loss for the year		(9,933)	(6,153)
Loss per share – Basic	9	(0.5) cents	(0.4) cents

There were no recognised gains or losses other than the net loss for the year.

Consolidated Balance Sheet

At 31st December, 2001

	NOTES	2001 RMB'000	2000 RMB'000
Non-current assets			
Property, plant and equipment	10	207,375	72,570
Interest in an associate	12	–	2,874
Investments in securities	13	15,350	33,000
Deposits made on acquisition of property, plant and equipment	14	6,971	9,746
Interest receivables		–	785
		229,696	118,975
Current assets			
Inventories	15	5,374	1,305
Amounts due from customers for contract work	16	1,516	–
Trade and other receivables	17	66,171	9,544
Investments in securities	13	18,000	–
Taxation recoverable		1,350	–
Bank balances and cash		455,300	226,827
		547,711	237,676
Current liabilities			
Trade and other payables	18	75,174	30,028
Customers' deposits for contract work		176,843	100,091
Current portion of secured long-term bank loans		5,500	6,000
		257,517	136,119
Net current assets		290,194	101,557
Total assets less current liabilities		519,890	220,532
Non-current liabilities			
Secured long-term bank loans		–	5,500
Minority interests		4,060	–
Net assets		515,830	215,032
Capital and reserves			
Share capital	19	286,900	219,400
Reserves	21	228,930	(4,368)
Shareholders' funds		515,830	215,032

The financial statements on pages 36 to 63 were approved and authorised for issue by the Board of Directors on 15th March, 2002 and are signed on its behalf by:

DR. CHEN XINXIANG
CHAIRMAN

ZHANG YAN
VICE CHIEF EXECUTIVE

Balance Sheet

At 31st December, 2001

	NOTES	2001 RMB'000	2000 RMB'000
Non-current assets			
Property, plant and equipment	10	204,401	72,570
Investments in subsidiaries	11	8,580	–
Interest in an associate	12	–	2,874
Investments in securities	13	15,350	33,000
Deposits made on acquisition of property, plant and equipment	14	6,971	9,746
Interest receivables		–	785
		235,302	118,975
Current assets			
Inventories	15	4,336	1,305
Amounts due from customers for contract work	16	1,516	–
Trade and other receivables		59,644	9,544
Amounts due from subsidiaries		8,703	–
Investments in securities	13	18,000	–
Taxation recoverable		1,350	–
Bank balances and cash		443,831	226,827
		537,380	237,676
Current liabilities			
Trade and other payables		73,544	30,028
Customers' deposits for contract work		176,843	100,091
Current portion of secured long-term bank loans		5,500	6,000
		255,887	136,119
Net current assets		281,493	101,557
Total assets less current liabilities		516,795	220,532
Non-current liabilities			
Secured long-term bank loans		–	5,500
Net assets		516,795	215,032
Capital and reserves			
Share capital	19	286,900	219,400
Reserves	21	229,895	(4,368)
Shareholders' funds		516,795	215,032

DR. CHEN XINXIANG
CHAIRMAN

ZHANG YAN
VICE CHIEF EXECUTIVE

Consolidated Cash Flow Statement

For the year ended 31st December, 2001

	NOTE	2001 RMB'000	(Note 1) 2000 RMB'000
Net cash inflow from operating activities	22	58,470	104,429
Returns on investments and servicing of finance			
Interest received		3,083	2,167
Interest paid		(695)	(973)
Net cash inflow from returns on investments and servicing of finance		2,388	1,194
Taxation			
Income tax paid in the Mainland China		(2,266)	–
Investing activities			
Purchase of property, plant and equipment		(168,665)	(39,141)
Proceeds from disposal of property, plant and equipment in connection with the discontinuing operations		2,793	–
Capital contribution to an associate		–	(3,000)
Proceeds from disposal of an associate		2,500	–
Acquisition of investments in securities		–	(15,000)
Proceeds from disposal of investments in securities		–	50
Deposits paid on acquisition of property, plant and equipment		(6,971)	(9,746)
Increase in bank deposits not within three months of maturity		(12,695)	–
Net cash outflow from investing activities		(183,038)	(66,837)
Net cash (outflow) inflow before financing		(124,446)	38,786

Consolidated Cash Flow Statement

For the year ended 31st December, 2001

	NOTE	2001 RMB'000	(Note 1) 2000 RMB'000
Financing	23		
Proceeds from issue of shares		343,666	100,000
Expenses incurred in connection with the issue of shares		(32,935)	–
Capital contributions from minority shareholders of subsidiaries		4,419	–
Borrowings raised		10,700	–
Repayment of borrowings		(16,700)	(6,000)
Net proceeds received on behalf of the State Social Security Fund Council		31,074	–
Net cash inflow from financing		340,224	94,000
Increase in cash and cash equivalents		215,778	132,786
Cash and cash equivalents at 1st January		226,827	94,041
Cash and cash equivalents at 31st December		442,605	226,827
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		455,300	226,827
Less: Bank deposits not within three months of maturity		12,695	–
		442,605	226,827

Notes to the Financial Statements

For the year ended 31st December, 2001

1. Reorganisation and basis of preparation of financial statements

China Information Highway Corporation (“CIHC”), the predecessor of Capinfo Company Limited (the “Company”), was established in Beijing, the People’s Republic of China (the “PRC”) on 23rd January, 1998 as a limited liability company. Following the restructuring of CIHC in July 2000, CIHC was reorganised into the Company in which shares were issued by the Company to the shareholders of CIHC (the “Reorganisation”). The Company was established in Beijing, the PRC on 14th July, 2000 as a joint stock limited company. Upon establishment, the Company continued to carry on the business activities of CIHC as detailed below. Accordingly, the results and cash flows for the year ended 31st December, 2000 has been prepared to present the combined results of CIHC, the Company and the Company’s subsidiaries, as a continuing reporting entity as if the Reorganisation had been completed as of 1st January, 2000.

Following the consent from the China Securities Regulatory Commission (“CSRC”) on 31st October, 2001, the Company’s overseas-listed foreign shares (“H Shares”) were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 21st December, 2001.

The Company’s ultimate holding company is Beijing State-owned Assets Management Corporation Limited (“BSAM”), a state-owned enterprise, also established in the PRC.

The Company is an investment holding company and engaged in installation of network systems, network design, consultancy and related technical services and sales of computers, related accessories and equipment. The Company was also engaged in the provision of internet services. Pursuant to an agreement dated 5th August, 2001, the Company disposed of all the related equipment and facilities of its internet service provision business. Accordingly, these operations were discontinued thereafter.

2. Significant accounting policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities and recognition of assets received from non-reciprocal transfers. The principal accounting policies adopted, which are in accordance with accounting principles generally accepted in Hong Kong, are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31st December, 2001

2. Significant accounting policies (continued)

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

Investments in associates

Associates are enterprises over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions.

The results include the Group's share of the results of its associates for the year. In the Group's balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost less any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the provision of e-Government technology services, e-Commerce technology services and internet services.

Revenue recognition

When the outcome of a contract for the installation of network systems can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Notes to the Financial Statements

For the year ended 31st December, 2001

2. Significant accounting policies (continued)

Revenue recognition (continued)

Revenue from network design, consultancy and related technical services are recognised when services are provided.

Sales of goods are recognised when goods are delivered and title has passed.

Government grants are recognised as income when the related costs which they are intended to compensate are incurred. The government grants received but not utilised at period end, if any, are shown as deferred income.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than construction in progress and those received from non-reciprocal transfers, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

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 asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised in accordance with the Group's accounting policy. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

Assets received from non-reciprocal transfers are stated at the fair value of the assets at the time of receipt less depreciation. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases.

Notes to the Financial Statements

For the year ended 31st December, 2001

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Computer equipment	33 $\frac{1}{3}$ %
Network equipment	20% or over the remaining period of the relevant contract work
Office equipment, furniture and fixtures	20%

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Installation contracts

When the outcome of a contract for the installation of network systems can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Notes to the Financial Statements

For the year ended 31st December, 2001

2. Significant accounting policies (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Notes to the Financial Statements

For the year ended 31st December, 2001

3. Business and geographical segments

Business segments

For management purposes, the Group's operations are organised into three operating divisions namely e-Government technology services, e-Commerce technology services and internet service provision. These divisions are the basis on which the Group reports its primary segment information. In August 2001, the business of internet service provision was discontinued.

As the assets of the Group are substantially used on a common basis by each of the segments of the Group, it is impracticable to analyse the assets and liabilities of the Group by business segments.

Business segments for the year are as follows:

	2001		(Note 1) 2000	
	Turnover RMB'000	Results RMB'000	Turnover RMB'000	Results RMB'000
Continuing operations				
– e-Government technology services	92,733	16,298	32,019	(3,442)
– e-Commerce technology services	50,377	(17,988)	13,032	(1,070)
	<u>143,110</u>	<u>(1,690)</u>	<u>45,051</u>	<u>(4,512)</u>
Discontinuing operations				
– internet service provision	6,635	5,003	4,803	1,985
	<u>149,745</u>	<u>3,313</u>	<u>49,854</u>	<u>(2,527)</u>
Other revenue		5,417		5,913
Central administrative expenses		(17,387)		(8,440)
Loss from operations		(8,657)		(5,054)
Interest on bank borrowings wholly repayable within five years		(695)		(973)
Income from interest in an associate engaged in e-Commerce technology services		(24)		(126)
Loss before taxation		(9,376)		(6,153)
Taxation		(916)		–
Loss before minority interests		(10,292)		(6,153)
Minority interests		359		–
Net loss for the year		<u>(9,933)</u>		<u>(6,153)</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

3. Business and geographical segments (continued)

Geographical segments

The Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments were presented.

4. Loss from operations

	2001 RMB'000	(Note 1) 2000 RMB'000
Loss from operations has been arrived at after charging:		
Directors' and supervisors' remuneration (note 5)	903	638
Other staff costs	22,787	11,285
Other staff's retirement benefits scheme contributions	4,305	2,402
	27,995	14,325
Less: Staff costs included in research and development costs	(7,040)	(5,587)
Staff costs capitalised in contract work	(6,453)	(3,395)
	14,502	5,343
Depreciation	33,398	10,276
Less: Depreciation included in research and development costs	(5,919)	(953)
Depreciation capitalised in contract work	(19,021)	(3,088)
	8,458	6,235
Operating lease rentals in respect of		
– cable network	14,668	5,297
– land and buildings	12,355	5,248
	27,023	10,545
Less: Operating lease rentals included in research and development costs	(2,846)	(855)
Operating lease rentals capitalised in contract work	(10,027)	(4,797)
	14,150	4,893

Notes to the Financial Statements

For the year ended 31st December, 2001

4. Loss from operations (continued)

	2001 RMB'000	(Note 1) 2000 RMB'000
Auditors' remuneration	650	450
Cost of goods sold	31,211	2,529
Loss on disposal of property, plant and equipment in connection with the discontinued operations	57	–
Loss on disposal of other property, plant and equipment	196	61
and after crediting:		
Government grants *	1,500	3,202
Interest income from		
– bank	3,083	2,167
– investment in held-to-maturity debt securities	550	544

- * The government grants are obtained specifically for the Group's certain research and development projects, that are eligible to receive government grants, in which attributable depreciation, staff costs, operating lease rentals in respect of land and buildings and cable network and research and development costs are compensated.

Notes to the Financial Statements

For the year ended 31st December, 2001

5. Directors' and supervisors' emoluments

	2001 RMB'000	(Note 1) 2000 RMB'000
Fees for		
– directors	–	–
– supervisors	–	–
Other emoluments for non-executive directors	–	–
	–	–
Other emoluments for executive directors		
– basic salaries and allowances	585	445
– bonus	70	22
– contributions to retirement benefits scheme	90	57
	745	524
Other emoluments for supervisors		
– basic salaries and allowances	120	96
– bonus	20	5
– contributions to retirement benefits scheme	18	13
	158	114
	903	638

For the year ended 31st December, 2001, basic salaries and allowances paid to the four executive directors were RMB181,000, RMB180,000, RMB120,000 and RMB104,000 respectively; bonus paid to the four executive directors were RMB20,000, RMB20,000, RMB20,000 and RMB10,000 respectively; while contributions to retirement benefits scheme in respect of the four executive directors were RMB28,000, RMB22,000, RMB20,000 and RMB20,000 respectively.

For the year ended 31st December, 2000, basic salaries and allowances paid to the four executive directors were RMB161,000, RMB112,000, RMB97,000 and RMB75,000 respectively; bonus paid to the three executive directors were RMB12,000, RMB5,000 and RMB5,000 respectively; while contributions to retirement benefits scheme in respect of the four executive directors were RMB16,000, RMB15,000, RMB15,000 and RMB11,000 respectively.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and supervisors has waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31st December, 2001

6. Employees' emoluments

The aggregate emoluments of the five highest paid individuals included two (2000: three) executive directors of the Company, whose emoluments are included in note 5 above. The aggregate emoluments of the remaining three (2000: two) highest paid individuals are as follows:

	2001 RMB'000	(Note 1) 2000 RMB'000
Basic salaries and allowances	480	426
Bonus	86	12
Contributions to retirement benefits scheme	32	8
	598	446

7. Discontinued operations

The Group ceased its internet service provision business in August 2001. Pursuant to an agreement dated 5th August, 2001, the Group agreed to dispose of all the related equipment and facilities of its internet service provision business for a consideration of approximately RMB2.8 million to Capnet Company Limited ("Capnet"), a subsidiary of BSAM.

The results of this discontinued operations for the year were as follows:

	2001 RMB'000	(Note 1) 2000 RMB'000
Turnover	6,635	4,803
Profit from operations	5,003	1,985

8. Taxation

The Company is recognised as a new-technology enterprise according to PRC tax regulations and is entitled to exemption from PRC income tax for the first three years of its operations and entitled to a 50% tax relief for the next three years commencing 2001. The charge for 2001 represents PRC income tax calculated at the rate of 7.5% pursuant to the relevant rules and regulations in the PRC.

No provision for taxation has been made in 2000 as the Group had no assessable profit for that year.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2001

9. Loss per share

The calculation of the basic loss per share is based on the net loss for the year of RMB9,933,000 (2000: RMB6,153,000) and the weighted average number of 2,214,339,411 shares in issue during the year (2000: 1,662,490,151 shares as if the Reorganisation and the sub-division of the Company's shares as described in notes 1 and 19 had taken place on 1st January, 2000).

No diluted loss per share has been presented as the effect of the potential shares outstanding during the year was anti-dilutive and there were no potential dilutive shares in 2000.

10. Property, plant and equipment

	Computer equipment RMB'000	Leasehold improvements RMB'000	Network equipment RMB'000	Office equipment, furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP						
COST						
At 1st January, 2001	16,447	6,702	62,290	675	977	87,091
Additions	33,711	8,379	77,264	859	51,036	171,249
Disposals	(392)	–	(3,368)	(120)	–	(3,880)
Transfers	–	–	15,635	–	(15,635)	–
At 31st December, 2001	49,766	15,081	151,821	1,414	36,378	254,460
DEPRECIATION						
At 1st January, 2001	3,981	646	9,743	151	–	14,521
Provided for the year	7,628	2,845	22,848	77	–	33,398
Eliminated on disposals	(136)	–	(657)	(41)	–	(834)
At 31st December, 2001	11,473	3,491	31,934	187	–	47,085
NET BOOK VALUES						
At 31st December, 2001	38,293	11,590	119,887	1,227	36,378	207,375
At 31st December, 2000	12,466	6,056	52,547	524	977	72,570

Notes to the Financial Statements

For the year ended 31st December, 2001

10. Property, plant and equipment (continued)

	Computer equipment RMB'000	Leasehold improvements RMB'000	Network equipment RMB'000	Office equipment, furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
THE COMPANY						
COST						
At 1st January, 2001	16,447	6,702	62,290	675	977	87,091
Additions	32,520	7,902	76,988	315	50,224	167,949
Disposals	(392)	–	(3,368)	(120)	–	(3,880)
Transfers	–	–	15,635	–	(15,635)	–
At 31st December, 2001	48,575	14,604	151,545	870	35,566	251,160
DEPRECIATION						
At 1st January, 2001	3,981	646	9,743	151	–	14,521
Provided for the year	7,428	2,808	22,802	34	–	33,072
Eliminated on disposals	(136)	–	(657)	(41)	–	(834)
At 31st December, 2001	11,273	3,454	31,888	144	–	46,759
NET BOOK VALUES						
At 31st December, 2001	37,302	11,150	119,657	726	35,566	204,401
At 31st December, 2000	12,466	6,056	52,547	524	977	72,570

11. Investments in subsidiaries

	THE COMPANY	
	2001	2000
	RMB'000	RMB'000
Unlisted capital contributions, at cost	8,580	–

Notes to the Financial Statements

For the year ended 31st December, 2001

11. Investments in subsidiaries (continued)

Details of the Company's subsidiaries, all of which are established and operate in the PRC, at 31st December, 2001 are as follows:

Name of subsidiary	Nominal value of fully paid registered capital	Attributable proportion of nominal value of registered capital held directly by the Company	Principal activity
Beijing Certificate of Authority Center Company Limited	RMB5,000,000	90%	Provision of services related to digital certificates
Beijing Citizen Card Company Limited	RMB8,000,000	51%	Provision of services for medical insurance information sub-system and the manufacture of citizen cards

12. Interest in an associate

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Share of associate's net assets	-	2,874	-	-
Unlisted capital contributions, at cost	-	-	-	3,000
Less: Impairment in value	-	-	-	(126)
	-	-	-	2,874

Notes to the Financial Statements

For the year ended 31st December, 2001

13. Investments in securities

	THE GROUP AND THE COMPANY	
	2001 RMB'000	2000 RMB'000
Held-to-maturity debt securities	18,000	18,000
Other investments – unlisted	15,350	15,000
	33,350	33,000
Carrying amount analysed for reporting purposes		
– non-current assets	15,350	33,000
– current assets	18,000	–
	33,350	33,000

The held-to-maturity debt securities at 31st December, 2001 represent the Company's investment in unlisted PRC Treasury Bonds (the "Bonds") which are unsecured, carrying interest at 3.02% per annum and mature in 2002. At 31st December, 2001, these Bonds were pledged to a bank to secure the long-term bank loans borrowed by the Company.

Details of other investments, all of which are established in the PRC, at 31st December, 2001 are as follows:

Name of investee	Attributable proportion of nominal value of registered capital held directly by the Company	Principal activities
Dongguan Infolink Technology Ltd.	5%	Development of computer software, computer system integration and technical consultancy
Zhongguancun Information Engineering Co., Ltd.	3%	Development of digitalisation of Zhongguancun area

Notes to the Financial Statements

For the year ended 31st December, 2001

14. Deposits made on acquisition of property, plant and equipment

The deposits were paid by the Company in connection with the acquisition of property, plant and equipment for certain e-Government business projects. The amount committed at the balance sheet date is included as capital commitments in note 25.

15. Inventories

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Raw materials	1,272	678	1,078	678
Equipment held for sales	4,102	627	3,258	627
	5,374	1,305	4,336	1,305

16. Amounts due from customers for contract work

	THE GROUP AND THE COMPANY	
	2001 RMB'000	2000 RMB'000
Contract costs incurred to date	69,312	13,800
Recognised profits less recognised losses	23,233	–
	92,545	13,800
Less: Progress billings	(91,029)	(13,800)
	1,516	–

Notes to the Financial Statements

For the year ended 31st December, 2001

17. Trade and other receivables

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Trade receivables from		
– a fellow subsidiary	623	–
– others	25,963	4,463
	26,586	4,463
Other receivables	25,220	5,081
Deposits made to a minority shareholder of a subsidiary on acquisition of equipment for sales	13,030	–
Interest receivables	1,335	–
	66,171	9,544

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 60 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Age		
0 to 60 days	25,527	4,463
91 to 180 days	163	–
Over 180 days	896	–
	26,586	4,463

18. Trade and other payables

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Trade payables	2,326	943
Other payables	34,703	27,968
Other customers' deposits	7,071	1,117
Amount due to the State Social Security Fund Council of the PRC *	31,074	–
	75,174	30,028

Notes to the Financial Statements

For the year ended 31st December, 2001

18. Trade and other payables (continued)

- * The balance represents the net proceeds payable to the State Social Security Fund Council of the PRC (the "Vendor") in connection with the disposal of certain state-owned shares handled by the Company on behalf of certain of its shareholders.

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Age		
0 to 60 days	1,892	608
Over 180 days	434	335
	2,326	943

19. Share capital

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Issue of shares pursuant to the Reorganisation and balance of share capital of RMB1 each at 31st December, 2000	219,399,700	–	219,400
Effect of sub-division of shares of RMB1 each into 10 shares of RMB0.10 each	1,974,597,300	–	–
Issue of H Shares upon listing on the GEM of the Stock Exchange	–	645,577,193	64,558
Disposal of certain state-owned domestic shares	(64,557,719)	64,557,719	–
Exercise of over-allocation options	(2,942,099)	32,363,088	2,942
Balance of share capital of RMB0.10 each	2,126,497,182	742,498,000	286,900

Notes to the Financial Statements

For the year ended 31st December, 2001

19. Share capital (continued)

Pursuant to the Reorganisation, 219,399,700 domestic shares of RMB1 each were issued at par to the shareholders of CIHC on 14th July, 2000.

During the year ended 31st December, 2001, the following changes in the share capital of the Company took place:

- (a) Pursuant to a resolution passed in an extraordinary general meeting of the Company held on 16th May 2001, the Company proposed to sub-divide the share capital of the Company from shares of RMB1 each into 10 shares of RMB0.10 each. On 17th October, 2001, the Company submitted an application to CSRC for the approval of the sub-division of the share capital of the Company from shares of RMB1 each into 10 shares of RMB0.10 each. On 31st October, 2001, CSRC issued an approval confirming the Company's proposed sub-division of shares.
- (b) Pursuant to the placing and underwriting agreement dated 17th December, 2001, the Company offered 645,577,193 new H Shares for subscription and the Vendor offered 64,557,719 state-owned shares for sale at a price of HK\$0.48 per H Share.
- (c) On 21st December, 2001, 29,420,989 H Shares were issued at a price of HK\$0.48 per share pursuant to the exercise of over-allocation options as detailed in note 20(b).

20. Share options

(a) *Pre-IPO Share Option Plan*

Pursuant to a pre-IPO share option plan adopted by the Company at an extraordinary general meeting held on 6th December, 2001, the Company granted options to subscribe for 70,472,920 H Shares in the Company at an exercise price of HK\$0.48 per H Share. Options granted are exercisable within a period of ten years from the date of grant subject to certain restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares.

(b) *Over-allocation Options*

Pursuant to the placing and underwriting agreement dated 17th December, 2001, the Company and the Vendor have granted options (the "Over-allocation Options") to the placing underwriters exercisable from time to time within 30 days from 17th December, 2001 to require the Company to issue up to an additional 96,836,579 new H Shares, and the Vendor to sell up to an additional 9,683,658 H Shares at HK\$0.48 per H Share.

In December 2001, certain Over-allocation Options were exercised to acquire 2,942,099 domestic shares from the Vendor and to request the Company to allot 29,420,989 H Shares at a price of HK\$0.48 per H share.

Notes to the Financial Statements

For the year ended 31st December, 2001

21. Reserves

	Share premium RMB'000	Retained profits (deficit) RMB'000	Total RMB'000
THE GROUP			
At 1st January, 2000 (note 1)	–	7,339	7,339
Net loss for the year (note 1)	–	(6,153)	(6,153)
Transferred to share capital pursuant to the Reorganisation	–	(5,554)	(5,554)
At 31st December, 2000	–	(4,368)	(4,368)
Premium arising on issue of shares	276,166	–	276,166
Expenses incurred in connection with the issue of shares	(32,935)	–	(32,935)
Net loss for the year	–	(9,933)	(9,933)
At 31st December, 2001	243,231	(14,301)	228,930
THE COMPANY			
At 1st January, 2000 (note 1)	–	7,339	7,339
Net loss for the year (note 1)	–	(6,153)	(6,153)
Transferred to share capital pursuant to the Reorganisation	–	(5,554)	(5,554)
At 31st December, 2000	–	(4,368)	(4,368)
Premium arising on issue of shares	276,166	–	276,166
Expenses incurred in connection with the issue of shares	(32,935)	–	(32,935)
Net loss for the year	–	(8,968)	(8,968)
At 31st December, 2001	243,231	(13,336)	229,895

As stipulated by the relevant laws and regulations in the PRC, the Company is required to set aside 10% of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered capital) and 5% to 10% of its profit after taxation for the statutory welfare fund.

According to the Company's Articles of Association, statutory surplus reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of the Company's registered capital; or (iii) expand production operation.

Notes to the Financial Statements

For the year ended 31st December, 2001

21. Reserves (continued)

The statutory welfare fund, which is to be used for the welfare of the staff and workers of the Company, is of a capital nature.

In accordance with the Company's Articles of Association, the profit after taxation for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) either International Accounting Standards or overseas accounting standards of the place in which the Company's shares are listed. Since its establishment, the Company reported losses determined in accordance with PRC accounting standards and regulations. Accordingly, no appropriation to the above reserves has been made.

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

22. Reconciliation of loss before taxation to net cash inflow from operating activities

	2001 RMB'000	(Note 1) 2000 RMB'000
Loss before taxation	(9,376)	(6,153)
Interest income	(3,633)	(2,711)
Interest expenses	695	973
Share of losses of an associate	771	126
Depreciation	14,377	7,188
Loss on disposal of property, plant and equipment in connection with the discontinued operations	57	–
Loss on disposal of other property, plant and equipment	196	61
Gain on disposal of interest in an associate	(747)	–
Increase in inventories	(4,069)	(1,116)
Increase in amounts due from customers for contract work	(80,743)	(16,514)
Increase in trade and other receivables	(55,292)	(4,742)
Increase in trade and other payables	21,234	7,426
Increase in customers' deposits for contract work	175,000	119,891
Net cash inflow from operating activities	58,470	104,429

Notes to the Financial Statements

For the year ended 31st December, 2001

23. Analysis of changes in financing during the year

	Share capital RMB'000	Share premium RMB'000	Bank loans RMB'000	Minority interests RMB'000	Amount due to the Vendor RMB'000
At 1st January, 2000 (note 1)	–	–	17,500	–	–
Issue of shares pursuant to the Reorganisation	219,400	–	–	–	–
Repayment of borrowings	–	–	(6,000)	–	–
At 31st December, 2000	219,400	–	11,500	–	–
Proceeds from issue of shares	67,500	276,166	–	–	–
Expenses incurred in connection with the issue of shares	–	(32,935)	–	–	–
Borrowings raised	–	–	10,700	–	–
Repayment of borrowings	–	–	(16,700)	–	–
Capital contributions from minority shareholders of subsidiaries	–	–	–	4,419	–
Share of losses by minority shareholders of subsidiaries	–	–	–	(359)	–
Net proceeds in connection with the disposal of certain state-owned shares received on behalf of the Vendor	–	–	–	–	31,074
At 31st December, 2001	286,900	243,231	5,500	4,060	31,074

24. Operating lease commitments

At the balance sheet date, the Group and the Company was committed to make the following minimum rental payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Within one year	12,913	7,759	11,574	7,759
In the second to fifth year inclusive	21,849	9,398	14,849	9,398
After five years	4,381	–	338	–
	39,143	17,157	26,761	17,157

In addition, at the balance sheet date, the Group and the Company was also committed to make minimum rental payments of RMB152,000 (2000: Nil) in respect of motor vehicles which fall due within one year.

Notes to the Financial Statements

For the year ended 31st December, 2001

25. Capital commitments

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	34,205	24,479	33,036	24,479

26. Retirement benefits scheme

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

27. Connected transactions

In May 1999, the Group entered into an agreement with China Telecom Group Beijing Corporation (“China Telecom Beijing”), the controlling shareholder of a promoter of the Company in which China Telecom Beijing has agreed, inter alia, to provide the following supporting services to the Group (i) lay certain fiber optics cable; (ii) provide to the customers of the Group access to China Telecom Beijing’s frame relay network; (iii) Capital Public Information Platform (“CPIP”) connection with China Telecom Beijing’s frame relay network; and (iv) public switched telephone network, integrated services digital network and digital data network fixed line services to CPIP. The term of the agreement is 3 years commencing from 6th May, 1999, renewable for a further 3 year thereafter if neither party objects to the renewal in writing 3 months prior to the expiry of the initial 3 year term.

In November 2000, the Group entered into an agreement with 北京市電信公司營業局 (China Telecom Beijing Telecom Business Bureau) (“BB-BTC”), a department under China Telecom Beijing in which BB-BTC has agreed, inter alia, to connect the CPIP to the 100M line of the 163 Network, to provide the 100M Ethernet port, and to repair and restore the line promptly should there be any failure. The agreement is for a fixed term of 1 year commencing from the 27th November, 2000. On 30th November, 2001, the Company and BB-BTC entered into an agreement for extending the term of the original agreement to expire on 26th November, 2002.

In April 2001, the Group entered into an agreement with BB-BTC in which BB-BTC has agreed, inter alia, to lease to the Group local dedicated circuits. The agreement is for a fixed term of 1 year commencing from 4th April, 2001. The term of the agreement has been extended to expire on 31st December, 2002 by a renewal agreement dated 14th December, 2001 between the Company and BB-BTC.

Notes to the Financial Statements

For the year ended 31st December, 2001

27. Connected transactions (continued)

In addition, China Telecom Beijing also provided the Group with telephone and other telephone related services during the year.

During the year, the Group paid in aggregate RMB15,229,000 (2000: RMB5,760,000) in respect of the transactions resulting from the above agreements.

In August 2001, the Company entered into a comprehensive services agreement with Capnet to provide certain internet access services to the Company and the Company has agreed to provide certain services including technical support, equipment and leasing of premises to Capnet for a fixed term of 3 years commencing August 2001. During the year, the Group received RMB1,650,000 (2000: Nil) from Capnet for the services provided. No services was provided by Capnet and no amount was paid to Capnet during the year.

Also, in August 2001, the Group disposed of all the related equipment and facilities of its internet service provision business to Capnet, details of which are set out in note 7.

The above transactions were carried out after negotiations between the Group and the connected parties in which the pricing was determined with reference to the market price, if any, estimated by the directors of the Company.

28. Post balance sheet event

In January 2002, the Company issued 29,090,909 H Shares at a price of HK\$0.48 per share pursuant to the exercise of Over-allocation Options.

Financial Summary

	Year ended 31st December,		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
RESULTS			
Turnover	14,702	49,854	149,745
Profit (loss) before taxation	3,996	(6,153)	(9,376)
Taxation	–	–	(916)
Profit (loss) before minority interests	3,996	(6,153)	(10,292)
Minority interests	–	–	359
Net profit (loss) for the year	3,996	(6,153)	(9,933)

	As at 31st December,	
	2000 RMB'000	2001 RMB'000
ASSETS AND LIABILITIES		
Total assets	356,651	777,407
Total liabilities	(141,619)	(257,517)
Minority interests	–	(4,060)
Shareholders' funds	215,032	515,830

Notes:

- (a) The results for each of the two years ended 31st December, 2000 which were extracted from the Company's prospectus dated 17th December, 2001 have been prepared on a combined basis as if the Company and the Company's subsidiaries in which the Company's predecessor China Information Highway Corporation has reorganised into had been in existence throughout those years.
- (b) The Company was established as a joint stock limited company in Beijing, the People's Republic of China on 14th July, 2000. Accordingly, the only summaries of assets and liabilities of the Group that have been prepared are those set out above.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 2001 annual general meeting (“**AGM**”) of Capinfo Company Limited (the “**Company**”) will be held at B1 Floor, Beijing Ocean Plaza, 158 Fuxingmen Nei Da Jie, Xicheng District, Beijing, The People’s Republic of China on Friday, 10th May, 2002 at 2:00 p.m. for the following purposes:

I. As ordinary resolutions

1. To receive and consider the supervisors’ report for the year 2001;
2. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the directors and auditors reports for the year ended 31st December, 2001;
3. To authorise the board of directors (the “**Board**”) of the Company to fix the remuneration of the directors and to ratify previous payment of remuneration made to the directors of the Company (if any);
4. To authorise the Board to fix the remuneration of supervisors of the Company and to ratify previous payment of remuneration made to the supervisors of the Company (if any);
5. To consider and approve the re-appointment of auditors and to authorize the Board to fix their remuneration;
6. To consider and approve any motion proposed by any shareholders holding 5% or more of the shares with voting rights at such meeting, if any;

II. As special resolutions:

7. To consider and, if thought fit, pass the following as special resolutions:
 - A. “**THAT**:
 - (1) Subject to paragraphs (3) and (4) below, the exercise by the Board during the Relevant Period (as defined in paragraph (5) below) of all the powers of the Company to allot, issue or otherwise deal with additional domestic shares (“**Domestic Shares**”) and overseas listed foreign shares (“**H Shares**”) in the capital of the Company, either separately or concurrently, and to make or grant offers, agreements and options which might require the exercise of such powers be generally and unconditionally approved;
 - (2) the approval in paragraph (1) above shall authorise the Board during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

Notice of Annual General Meeting

- (3) the aggregate nominal amount of Domestic Shares and H Shares allotted or agreed conditionally or unconditionally to be allotted by the Board, other than pursuant to (i) Rights Issue (as defined in paragraph (5) below) (ii) an issue of securities upon exercise of the subscription rights under any share option scheme or similar arrangement adopted by the Company for the grant or issue to officers and/or employees of the Company and/or its subsidiaries, and/or any other persons of securities or rights to acquire securities of the Company, or (iii) an issue of securities pursuant to any scrip dividend or similar arrangement providing for the allotment of securities in lieu of the whole or part of the dividend on securities of the Company in accordance with the Articles of Association of the Company, shall not exceed 20% of each of the issued Domestic Shares and H Shares in the capital of the Company as at the date of passing of this resolution;
- (4) Approval as required in paragraph (1) above is subject to the granting of necessary approval by the China Securities Regulatory Commission (“CSRC”);
- (5) For the purpose of this resolution:

“Relevant Period” means the period from the date upon which this resolution is passed until whichever is the earliest of:

- (a) from the passing of this special resolution, until conclusion of the Company’s next annual general meeting;
- (b) the expiry of the twelve-month period from the date of the passing of this resolution;
- (c) the date of revocation or variation of the authority given under this resolution by a special resolution of the Company in general meeting.

“Rights Issue” means an offer of securities open for a period of time fixed by the Board to holders of securities whose names appear on the register of shareholders on a fixed record date in proportion to their then holdings of such securities as at that date (subject to such exclusion or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).

- (6) The Board be authorised to make appropriate amendments to the relevant provisions in the Articles of Association of the Company after the completion of allotment or issuance as provided in paragraph (1) above, to increase the share capital of the Company and to complete the related registration formalities with the relevant government and regulatory authorities.”

Notice of Annual General Meeting

B. “**THAT,**

(1) Subject to paragraph (2) below, the Board be and is hereby authorised to apply to the CSRC, the State Administration of Foreign Exchange and the State Economic and Trade Commission (where required) and other government authorities for the necessary approval to exercise all powers of the Company during the Relevant Period to repurchase H Shares up to 10% of the issued H Shares in the capital of the Company as at the date of passing of this resolution, and upon the obtaining of all the necessary approvals, to exercise the aforesaid power to repurchase H Shares;

(2) For the purpose of this resolution:

“Relevant Period” means the period from the date upon which this resolution is passed until whichever is the earliest of:

- (a) from the passing of this special resolution, until conclusion of the Company’s next annual general meeting;
- (b) the expiry of the twelve-month period from the date of the passing of this resolution;
- (c) the date of revocation or variation of the authority given under this resolution by a special resolution of the Company in general meeting;

(3) The Board be authorised to make appropriate amendments to the relevant provisions in the Articles of Association of the Company after completion of repurchase of H Shares as provided in paragraph (1) above, to cancel such H Shares that shall have been repurchased, to reduce the share capital of the Company and to complete the related registration formalities with the relevant government and regulatory authorities.”

By order of the Board

CAPINFO COMPANY LIMITED

Dr. CHEN Xinxiang

Chairman

Beijing, the People’s Republic of China,

22nd March, 2002

Notice of Annual General Meeting

Notes:

1. The H Shares register of shareholders of the Company will be closed from 9th April, 2002 to 10th May, 2002 (both days inclusive), during which no transfer of H Shares will be effected. The holder of Shares whose name appears on the register of shareholders of the Company at 4:00 p.m. on 8th April, 2002 will be entitled to attend and vote at the AGM.
2. Any holder of Shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the AGM on his behalf. A proxy need not be a shareholder of the Company.
3. A voting proxy form for the AGM is enclosed. In order to be valid, the instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing or, if the appointor is a legal person, it shall be under seal or under the hand of a Director or attorney duly authorized.
4. The instrument appointing a proxy shall be deposited to the Company's H Shares registrar in Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
5. Holders of Shares who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it to the Company's H Shares registrar in Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before Friday, 19th April, 2002. The reply slip may be delivered by hand or by post.