

The logo for Capinfo, featuring the word "CAPINFO" in a bold, red, sans-serif font. The letter "A" is stylized with a white triangle pointing to the right.

Capinfo Company Limited

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

The text "Annual Report 2002" is displayed at the bottom of the page. "Annual Report" is in a white, sans-serif font, and "2002" is in a large, bold, orange, sans-serif font. The background of the entire page is a blue and orange digital-themed graphic with circuit lines and binary code.

# Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these 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 of the Stock Exchange 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. GEM-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 at "[www.hkgem.com](http://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") collectively and individually accept full responsibility, includes particulars given in compliance with the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM 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: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on the basis and assumptions that are fair and reasonable.*



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# 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](http://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)

# Corporate Information

## **Authorised Representatives**

Ms. ZHANG Yan

(張延女士)

Mr. LO Wai Tat, Andrew, ACCA, AHKSA

(盧偉達先生)

## **Hong Kong legal advisers and authorised person to accept service of process and notice**

Kwok & Yih

## **Hong Kong share registrar and transfer office**

Hong Kong Registrars Limited

Rooms 1901-05, 19/F

Hopewell Centre

183 Queen's Road East

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



The year 2002 was a year of great success for the Group. During this period, the Group took vigorous moves to build up its image as a "Digital City Developer and Operator". Through upgrading, construction and operation of a number of large scale information systems of "Digital Beijing", the Group has gradually gained a dominant position in the construction of "digital cities".

With concerted efforts of our staff, the Group made significant progress in various core businesses. The Group constructed, owned and operated the main infrastructures of "Digital Beijing" - the large scale metropolitan area information systems such as Capital Public Information Platform, Beijing Social Security Information System, Beijing Citizen Card Information System, Beijing Electronic Community Information System and "Beijing e-Commerce City". These information systems together formed the basic information facilities of "Digital Beijing" which, by means of computerization, directly or indirectly raised the government's operation efficiency and living standard of the citizens. Apart from further expanding its existing customer base, the Group has also actively opened up the market for "digital city" in other cities. The initial results were positive.

As an important collaborator of the Beijing government in the development of information technology, the Group also actively participated in the formulation of the Action Plan for "Beijing Olympic Games – Special Programme for Construction of Digital Olympics" and endeavored to capture the business opportunities arising from the Olympic Games, including the successful tender for the multi-lingual system project geared to the needs of the Olympics. The project will be jointly developed with several related parties of the European Union and there are good prospects for further applications.

## Chairman's Statement

In an increasingly competitive market environment, the Group continued to refine its corporate strategy, rationalize its organizational structure and improve its operation efficiency. During this period, the Group also, taking a cautious approach, invested in businesses which could fully utilize the core competence of the Group.

With rapid development of information system construction in cities of the PRC, the market for e-Government, e-Commerce and infrastructural networking technology services has gained further growth momentum. The Group will strive to become one of the most competitive IT enterprises in China by continuing to utilize its various strengths and dedicate efforts in research and development while assimilating the opportunities arising from the Olympic Games.

On behalf of the Directors, I would like to extend my sincere gratitude and appreciation to our shareholders and various parties for their support during the year.



**DR. CHEN XINXIANG**

*Chairman*

Hong Kong,  
20th March, 2003



# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2002 to 31st December, 2002

## Business Objectives

## Actual Progress

### *Products and services launching*

The launching of the district/county level e-Government total solution with the functions of electronic documentation system, search engine integration technology and general government payment system

District /county level e-Government total solution has been developed in late March and has been used in Dongcheng District e-Government projects as well as in online approval pilot project

GPS integrated application service

The completion of Beijing geographic information system ("GIS") phase 2 which will extend the coverage of GIS phase 1 to all of the greening areas of Chaoyang District, Haidian District, Shijingshan District, Fengtai District, Da Xing District and Changping District in Beijing, which will encompass 26 towns and 4 farms of an aggregate area of approximately 240 square kilometers

According to the government's arrangement, construction of Beijing GIS phase 2 has not been commenced yet

To integrate GIS functions and community network functions to the existing e-Government solutions and modules

GIS modules have been developed smoothly and the related community network functions have been integrated to the existing e-Government solutions, including the application of GIS modules plan to Digital Beijing Information Kiosk

The launching of the Enterprise Procurement Management Software for enterprises to manage their procurement of supplies and outstanding services in an efficient and cost-effective manner and the Enterprise Sales Channel Management Software module for enterprises to manage its sales channels in an efficient and cost-effective manner, which will utilize the i-Service, which is a basic platform or middle ware connecting two separate applications

These two software modules have been used for "Beijing municipal 2002 medical consumables procurement project (Trial)" ([www.capmed.com.cn](http://www.capmed.com.cn))



# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2002 to 31st December, 2002

## Business Objectives

The launching of an online business security software suite, namely the PKI technology-based Web Safety General Communication Software which may be applied to improve digital certificates, by making use of digital certificates more secured and efficient than those ordinary password-based system

To launch online securities transaction channel, distance learning channel, distance medicare channel, digital books channel, video on demand ("VOD"), interactive games channel based on the Beijing City Community Services Information System's call center, narrowband and broadband networks, in the Beijing Municipality

The launching of Hybrid Fiber Coaxial Cable ("HFC") broadband access products including the cable modem developed by the Group and a community network management system, in the Beijing Municipality

To launch the i-Service version 2.0 which will contain, in addition to the basic functions of version 1.0, an application module for the development of management, security and workflow applications

To launch the Enterprise Application Portal, is a web-based solution for deploying an enterprise-level portal, and the Enterprise Knowledge Management Software module, is a web-based solution serving as an extension of an enterprise's information technology management which enables it to gather, analyse, structure, store and share knowledge in various areas such as project management, for use on i-Service

To launch network security engine for the protection of extensive markup language format information using public key infrastructure technology

## Actual Progress

This has been used for city level phase I of e-Government online service platform

Online securities transaction channel, distance learning channel, digital books channel, VOD have been launched in Yuxin Garden. Such services were being developed on schedule

HFC broadband access products have been produced in small quantity and were used in selected model communities in Guangdong Province

Development was completed in December and the related functions have been integrated to i-Service version 2.0 for use in online approval pilot project

Development of the online application solution has been postponed according to the market situation.

The network security engine has been used in online approval pilot project

# Comparison between Business Objectives and Actual Business Progress

*From 1st January, 2002 to 31st December, 2002*

## **Business Objectives**

To launch the introduction of set-top box based household appliances for the digitalisation of household environment

To launch real time verification of Digital Certificates (CA)

To launch the accelerated service and server load balancing service for e-business transactions

To launch internet data centre ("IDC") data backup services

## **Actual Progress**

Research and development of the project have been postponed according to the market situation

The services have been launched successfully and used in online securities services

Such services have been provided for e-Commerce website, web hosting etc

The services have been successfully used in the Group's IDC equipment facilities including the BJCA equipment facilities

## **Sales and marketing**

To promote the market resources of e-commerce solutions, to explore mainly on the market opportunities for aviation and retail industries in the PRC

Co-operated with famous partners in the industry and developed the Beijing online bill payment platform which supports payment of flight and railway tickets, water, electricity and gas, etc.

The use of advertisement to market the Company's complete suite of software products and solutions

To promote the Company's brand name, software products and solutions by magazines and other multimedia

Continue to seek and form strategic partnership with major financial institutions, enterprises, system integrators in the PRC and nationally and internationally renowned IT companies

Built up strategic partnership with famous enterprises in the industry such as ERG, POSDATA, ADOBE

# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2002 to 31st December, 2002

## Business Objectives

To promote the sales of e-Government solutions in other cities in the PRC with the establishment of additional sales channels and sales team

The Group's e-Commerce platform to introduce to other cities in the PRC through an ASP model which will be promoted by a sales channel comprising sales agents nationwide

To continue to seek strategic partnership with major foreign enterprises, and system integrators, conventional enterprises and financial institutions in the PRC

To cooperate with manufacturers of community services products and manufacturers of HID concept household appliances for the joint promotion of the Group's community service platform

## Research and development

One-stop office core technology

To research on the application of security technology on broadband data transmission

To research on encryption algorithm for wireless voice and data transmission

## Actual Progress

The sales team has been strengthened during the streamlining of organizational structure and the Group's e-Government solutions have been applied to several major e-Government model cities.

Launching of the services has been postponed according to the market situation

Continue to maintain active contacts with major foreign enterprises and system integrators, conventional enterprises and financial institutions in line with the development strategy of the Company

The community services platform has provided services jointly with the newly established 96156 community services hotline

Online business security software for data transmission has been developed

The research project progressed smoothly and the result will be used in Multilingual Intelligent Information Service System that will be useful for Olympic Games

## Comparison between Business Objectives and Actual Business Progress

*From 1st January, 2002 to 31st December, 2002*

### **Business Objectives**

To research on server load balancing technology and e-commerce network speed accelerator technology

GPS integrated application

To further research on the Geographic Information System (GIS) application technology

Workflow system technology

To research and develop the workflow technology

To continue the research on workflow technology and the research on wireless applications

The development of the external cable modem, Cable Modem Termination System (CMTS) and network resource management system and products

To research on the intelligent household appliances which are designed on the HFC structure

To research on IDC information backup and data recovery technology

### **Actual Progress**

The research result of server load balancing technology was used in the Medical Insurance main system while research on e-commerce network speed accelerator was being conducted smoothly

The research was being conducted smoothly and was used in Global Positioning System support commanding system

The workflow technology so developed has been used in Dongcheng district and Beijing Municipal Labor and Social Security Bureau's e-Government total solutions

The research was being conducted smoothly and some of the modules have been integrated to the i-Service testing version

Being developed smoothly and the result will be used for trial in related government authorities

Research has been postponed due to changing market situation

Relevant solutions have been developed and used in the Group's IDC equipment facilities

# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2002 to 31st December, 2002

## USE OF PROCEEDS

	<b>Approximate amount for intended use</b>	<b>Approximate amount actually used up to 31st December, 2002</b>
	RMB '000	RMB '000
The expansion and maintenance of the CPIP e-Government Technology Services	31,000	26,148
– research and implementation of platform	63,000	35,665
– research on GPS integrated application service system	37,000	5,917
– research on workflow system technology	16,000	3,404
– research on one stop office core technology and solutions	21,000	6,012
e-Commerce Technology Services		
– research and implementation of platform	31,000	5,818
– development of e-commerce security application system software	19,000	5,042
– research on CSCW system	16,000	4,476
Internet Technology Services		
– research on broadband multimedia access total solutions based on HFC technology	21,000	2,980
Marketing and brand building	27,000	4,595
Settle payment to supplier	5,000	5,000
	<u>                    </u>	<u>                    </u>

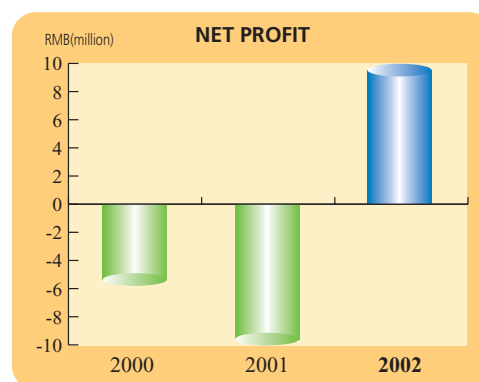
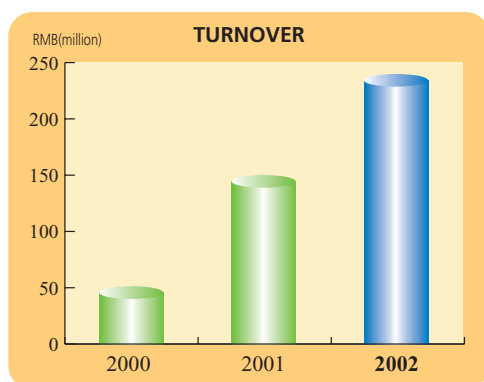
The unused proceeds from the placing of the Company's H shares pursuant to the prospectus dated 17th December, 2001 (being the difference between the approximate amount for intended use and approximate amount actually used up to 31st December, 2002 stated above) included (i) the amount required for achieving business objectives scheduled for the year 2003, and (ii) the amount not being utilized as a result of the delay in the progress of certain business objectives, and (iii) saving in costs for achieving business objectives. The aforesaid unused proceeds were placed in a PRC bank as deposits at 31st December, 2002.

# Management Discussion and Analysis

## Financial Review

### THREE YEARS FINANCIAL DATA

	2000 <i>RMB(million)</i>	2001 <i>RMB(million)</i>	2002 <i>RMB (million)</i>
Turnover	50	150	<b>237</b>
Net profit (loss) for the year	(6)	(10)	<b>10</b>



The Group's revenue was approximately RMB237 million for the financial year ended 31st December, 2002, representing an increase of 59% over the previous year. Such significant increase was attributable to the business development in relation to large scale information systems for Digital Beijing as well as network solution, system integration services provided for commercial sectors.

The Group's gross profit was approximately RMB63 million for the financial year ended 31st December, 2002, representing an increase of 46% over the previous year while gross profit margin in 2002 was 27%.

Net profit for the financial year ended 31st December, 2002 was approximately RMB10 million as against approximately net loss of RMB9.9 million in the previous year, largely as a result of the operation and maintenance services provided for the Capital Public Information Platform, Beijing Social Security Information System – Medical Insurance Information Sub-system and Beijing Municipal Community Services Information Network System.

The Group's current ratio, defined as total current assets over total current liabilities, increased from 2.1 as at 31st December, 2001 to 2.9 as at 31st December, 2002 which reflected the highly liquid financial position of the Group.

During the year, the Group had pledged RMB106 million time deposit to a bank in the PRC for banking facilities amounting to RMB80 million. Such banking facilities would facilitate the implementation of the Group's various projects and as at 31st December, 2002, none of the banking facilities was utilized. As at the end of the year

# Management Discussion and Analysis

under review, the Group had floating interest rate long term loan of RMB10 million that will be matured within 5 years and the Group's gearing ratio, defined as total borrowing over net assets, was 2%. Cash and bank deposits were RMB341 million as at 31st December, 2002 which mainly came from shareholders' contribution and working capital generated from its operation.

As at 31st December, 2002, the Group had RMB20.6 million capital commitment and had no significant contingent liabilities. During the year under review, the Group's financial position was not exposed to significant fluctuations in exchange rates and any related hedges.

## Business Review

During the year under review, a number of credentials were granted to the Group by various government authorities. In April 2002, it was granted the "Credential for Computer Information System Integration Concerning State Secrets" by the State Secrets Bureau. In August, it obtained the "Credential for Import and Export Enterprises" by the Ministry of Foreign Trade and Economics. In December, it was granted the "Credential for Software Enterprises" by the Ministry of Information Industry of the State. Such credentials and certificates warrant that the Group is able to develop further its existing business domains, build up stronger barriers for competitors to enter the business and enjoy the relevant preferential policies.

The "Beijing e-Commerce Project" of the Group was appraised by the State Development Planning Commission of the PRC as an excellent model project of advanced technological industry during the year. The Group's advantages in research and development and product commercialization will enable it to maintain its existing competitiveness.

## e-Government Technology Service

The Group's e-Government technology services mainly include: Capital Public Information Platform, Beijing Social Security Information System – Medical Insurance Information Sub-system, Beijing Citizen Card Project and Beijing Municipal Community Services Information Network System. In particular, the construction and operating results of Capital Public Information Platform, Beijing Social Security Information System – Medical Insurance Information Sub-system and Beijing Municipal Community Services Information Network System contributed substantially to the operating results of the Group.



# Management Discussion and Analysis

## I. Capital Public Information Platform

Based on the Capital Public Information Platform, the Group completed the construction of the Capital e-Government website. During this period, access to hundreds of city and district government units was made and several hundred access points were provided to the police private networks. Establishment of the Capital e-Government website is essential for the Group to continue exploring the potential business value of such customers and providing first class e-Government solutions.

## II. Infrastructure of "Digital Beijing"

Up to November, the Social Security Information System had supported the provision of different types of medical insurance to nearly 4 million participants and handled payment of medical funds amounting to over RMB2 billion. Both the quality of service and level of customer satisfaction had increased significantly. Through the creation of the Citizen Card Division, the Group took over the entire business operation of Beijing Citizen Card Company Limited, as a result, much progress was made to the operation of the three centres of Beijing Citizen Card Information System (data exchange centre, secret key centre, service centre).

During the year under review, the Group endeavored to increase the number of customers from the government sector for the Beijing Municipal Community Services Information Network System and maintained as the operator of 96156 call centre for Beijing Civil Affairs Bureau. Through the Community Service Information System, 3,000 service providers were developed in Beijing. In particular, the neighbourhood committee management software module was recognized by a number of municipal governments.

## e-Commerce Technology Service

Beijing Digital CA Centre issued 150,000 CA certificates during the year under review, and became one of the model enterprises of PKI inter-connection model projects selected by the State Development Planning Commission.

The business of "Capinfo Payment Platform" increased by 70% compared with the previous financial year. Beijing e-Commerce City ([www.beijing.com.cn](http://www.beijing.com.cn)) was elected "Excellent Model Project of Advanced







# Management Discussion and Analysis

Technological Industry” by the State Development Planning Commission. Moreover, the Group was appointed by the Ministry of Science and Technology of the State to develop the “e-Commerce and Modern Logistic Area Pilot Project”.

## Investments in Emerging Business Domains

In order to fully utilize the resources of Capital Public Information Platform and the resources of e-Government and e-Commerce services, the Group, invested RMB4 million, together with BSAM jointly established Beijing Shoutong Wanwei Information Technology Development Co., Ltd. (“Beijing Shoutong”) to engage in the operation of Digital Beijing Information Kiosk. Business of Beijing Shoutong, which is owned 40% by the Group, is in smooth progress. Phase I of the project in relation to information kiosk would involve the building of a number of “Digital Beijing” information kiosks in the busy commercial streets, high-class hotels and shopping arcades in Beijing. Beijing Credit Bureau Company Limited, in which the Group invested RMB5 million and owned a 25% equity interest, is also actively engaged in the development of information and advisory services related to credit reporting, credit rating and risk management. It has participated in the “Small and Medium Enterprises Financial Support Programme” of Beijing, and completed the development of all service provider credit rating systems within the Beijing Community Services Information System. The Group also proposed, subject to shareholder’s approval, to invest RMB56 million to Beijing Zhengtong Network Communication Company Limited which engages in 800M digital trunk related businesses.

## Employees

Professionals are the Group’s precious assets. As at 31st December, 2002, the Group had 515 employees as against 421 employees at the end of 2001. Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include retirement benefits and share options. During the year under review, total staff cost paid was approximately RMB29 million. The Company had adopted a Pre-IPO Share Option Plan and Share Option Scheme on 6th December 2001. Options had been granted to certain Directors and employees of the Group under the Pre-IPO Share Option Plan. The Board of Directors may, at its discretion, invite any employees to take up options to subscribe H Shares of the Company pursuant to the Share Option Scheme.

# Management Discussion and Analysis

## Research and Development

### *I. One-stop Office Core Technology*

During this year, the Group continued to improve the workflow engine software modules after development was completed, and such modules were used in the Beijing e-Government Online Service Platform and several other government projects. Moreover, as research and development of the XML data exchange platform was successfully completed during this year, the Group used the relevant modules in large scale information systems of Digital Beijing and extension of functions of other systems.

### *II. Broadband Access System*

The Group had completed the upgrading of the network management software which was applied to the network management of e-Government web system built on the Capital Public Information Platform, and was introduced to other cities as a software product of "Digital Beijing". The design model formation for PCI Cable Modem was completed and trial run was being conducted in the small districts of a number of cities.

### *III. Multilingual Intelligent Information Service Network System*

The "Research on Model System of Key Technologies and Applications of Multilingual Information Service System for Olympic Games" was proceeding well. The Group planned to use the system first in the multilingual official website of the Olympic Organizing Committee, Digital Beijing Multilingual Information Kiosk and Digital Beijing Multilingual Mobile Terminal. As the business of Beijing Shoutong jointly established by the Group and BSAM which operates the "Digital Beijing" Information Kiosk was in smooth progress, this system may be used initially in "Digital Beijing" Information Kiosk upon completion of research and development.

## Future Prospects

In 2003, the Group will endeavor to improve its corporate development strategy highlighting e-Government as its main business and strengthen its organizational structure to enhance operation efficiency. Through building up its image as the "leading developer and operator of digital cities" and exploring in-depth the existing customer resources, the Group will open up further markets for "digital city" outside Beijing. With extensive experience in the construction and operation of large scale information systems, the development of related software to a mature stage and having various infrastructures of "Digital Beijing" in place, the Group is well-positioned to capture the business opportunities arising from the "Digital Olympic".

# Directors, Supervisors and Senior Management

## Directors

### *Executive Directors*

Dr. CHEN Xinxiang (陳信祥博士), aged 60, 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 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 34, 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 49, 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 26 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 45, 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 Corghi 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 and Senior Management

## *Non-executive Directors*

Mr. GAO Fengqian (高峰倩先生), aged 60, 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 36 years of experience in business operation and management.

Mr. LI Ye (李擘先生), aged 66, 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 43, is a non-executive Director and currently General Manager of Internet Division of China Netcom Corporation. 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 16 years of experience in business operation and management.

Mr. FAN Dazhi (樊大志先生), aged 38, 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 41, became a non-executive Director in July 2001, and is currently the deputy general manager and head of finance department of China Netcom Corporation Beijing Communication 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 of Beijing Telecom Company and deputy general manager of Beijing Communication Corporation.

Mr. PAN Jiaren (潘家任先生), aged 62, 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 39 years experience in broadcasting and television, and was granted several times the Award of Technology

## Directors, Supervisors and Senior Management

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.

Ms. LIANG Mei (梁眉女士), aged 61, 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 the head of the Beijing Municipal Citizen Card Administration Centre. She has over 34 years of experience in business operation and management.

Mr. OU Qun (歐群先生), aged 49, became a non-executive Director in May 2002. Mr. Ou graduated from Capital Economics and Trade University in 2001 as a postgraduate student specializing in regional economy. He is currently the Deputy Manager of Property Investment Division of BSAM. Mr. Ou had served the Beijing Municipal Government for over 20 years and has more than 20 years' experience in business operation and management.

### *Independent non-executive Directors*

Mr. WONG Ying Ho, Kennedy (黃英豪先生), aged 40, 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 Far Eastern Polychem Industries Limited (Growth Enterprise Market) and Raymond Industrial Limited. He is also member of the CPPCC National Committee, an attesting officer appointed by the Ministry of Justice of the PRC, chairman of China Champ Group, as well as member of the Election Committee of Hong Kong.

Mr. NG Kin Fai, Francis (伍健輝先生), aged 44, 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 Telecommunications Network, 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.

# Directors, Supervisors and Senior Management

## *Qualified Accountant and Company Secretary*

Mr. LO Wai Tat, Andrew (盧偉達先生), aged 30, 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 in October 2001 and he possesses over 8 years working experience in auditing and financial management.

## **Supervisors**

Mr. ZHANG Zhenlong (張振龍先生), aged 27, 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 4 years of management experience.

Ms. LIU Jian (劉健女士), aged 51, 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 30, 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 66, 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.



## Directors, Supervisors and Senior Management

Mr. SHAO Jianping (邵建平先生), aged 50, 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 Shanghai Company. Mr. Shao has over 25 years management and administration experience.

Mr. LI Nanfang (李南方先生), aged 37, joined the Company in August 2002 and is currently Vice Chief Executive of the Company. Mr. Li graduated from the Faculty of Communication System of Electronic Technology University (former Chengdu Telecommunications Engineering College) in 1991 with a master degree specializing in computer communication network. Prior to joining the Company, Mr. Li had served as Vice President Tsinghua Unisplendown Bitway Networking Co., Ltd. He has more than 10 years' experience in business operation and management.

Mr. HE Huakang (何華康先生), aged 58, joined the Company in May 2002 and is currently Vice Chief Executive of the Company. Mr. He graduated from the Faculty of Automation of Tsinghua University in 1981 with a master degree specializing in automation. Prior to joining the Company, Mr. He had served as Deputy Head of Financial System Development Centre and Chief Engineer of Application and Development Division of China Great wall Computer Co., Ltd. and General Manager, Chairman of Great Wall Computer Software Co., Ltd. as well as Director, Deputy General Manager of the Group Company. He has more than 20 years' experience in business operation and management.

Mr. SUN Zixi (孫子系先生), aged 51, joined the Company in September 2002 and is currently Vice Chief Executive of the Company. Mr. Sun graduated from the Faculty of Economics of Shanxi University in 1982. Prior to joining the Company, Mr. Sun had served as Deputy Managing Director of China Chengxin Securities Rating Company Limited, Deputy Managing Director of China Corporation Company For Agriculture Livestock Co., Ltd. and Deputy General Manager of Trading Division, General Manager of Finance Division, Senior Assistant to General Manager and Deputy General Manager of China Rural Development and Trust Investment Company. He has more than 20 years' experience in business operation and management.



## Directors, Supervisors and Senior Management

Mr. ZHUANG Zixin (莊梓新先生), aged 67, 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 47, joined the Company in March 2000 and he currently is the manager of the Company's Citizen Card 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 28, 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.





# Directors' Report

The directors present their report and the audited financial statements for the year ended 31st December, 2002.

## Principal Activities

The Company acts as an investment holding company and is also engaged in the installation of network systems, network design, consultancy and related technical services and sales of computers, related accessories and equipment. The principal activities of the Company's subsidiary are set out in note 12 to the financial statements.

## Results

The results of the Group for the year ended 31st December, 2002 is set out in the consolidated income statement on page 36 of the annual report.

## Share Capital

Details of the movements in share capital of the Company during the year are set out in note 20 to the financial statements.

## Property, Plant and Equipment

During the year, the Group incurred an aggregate of approximately RMB88.5 million in the additions of property, plant and equipment, which mainly comprised of the construction of network and the acquisition of computer and network equipment. Details of these and other movements during the year in property, plant and equipment of the Group and the Company are set out in note 11 to the financial statements.



# Directors' Report

## 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 (*Chairman*)  
Dr. Wang Xu (*Chief Executive*)  
Ms. Zhang Yan (*Vice Chief Executive*)  
Dr. Wu Bo (*Vice Chief Executive*)

### *Non-executive directors:*

Mr. Gao Fengqian  
Mr. Li Ye  
Mr. Zuo Feng  
Mr. Fan Dazhi  
Mr. Qi Qigong  
Mr. Pan Jiaren  
Ms. Liang Mei  
Mr. Ou Qun (appointed on 10th May, 2002)

### *Independent non-executive directors:*

Mr. Wong Ying Ho, Kennedy  
Mr. Ng Kin Fai, Francis

### *Supervisors:*

Ms. Liu Jian  
Mr. Zhang Zhenlong  
Mr. Cheng Huajun

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.



## Directors' Report

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, renewable upon re-appointment or re-election. In accordance with the provisions of the Companies Law in the People's Republic of China (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 expired 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, 2002, save as disclosed, 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' 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 interests 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 one to ten years from the

# Directors' Report

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. No share options were granted nor exercised during the year. A summary of these share options granted is as follows:

<b>Name of director</b>	<b>Number of share options outstanding at 1.1.2002 and 31.12.2002</b>
Dr. Chen Xinxiang	1,309,750
Dr. Wang Xu	1,297,350
Ms. Zhang Yan	1,308,200
Dr. Wu Bo	1,261,700
Mr. Gao Fengqian	1,283,400
Mr. Li Ye	1,309,750
Mr. Zuo Feng	1,309,750
Mr. Fan Dazhi	1,244,650
Mr. Qi Qigong	1,244,650
Mr. Pan Jiaren	1,244,650
Ms. Liang Mei	1,244,650
Mr. Wong Ying Ho, Kennedy	1,241,550
Mr. Ng Kin Fai, Francis	1,241,550
	<hr style="border-top: 1px solid black;"/>
	16,541,600
	<hr style="border-top: 3px double black;"/>
<b>Name of supervisor</b>	
Ms. Liu Jian	1,244,650
Mr. Zhang Zhenlong	1,264,800
Mr. Cheng Huajun	1,286,500
	<hr style="border-top: 1px solid black;"/>
	3,795,950
	<hr style="border-top: 3px double black;"/>

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 or 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 or 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.

# Directors' Report

## Substantial Shareholders

As at 31st December, 2002, according to the register maintained under Section 16(1) of the SDI Ordinance, Beijing State-owned Assets Management Corporation Limited ("BSAM") owned 1,783,631,919 domestic shares in the Company which represents 61.55% 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, 2002.

## 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 on 6th December, 2001 and are 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 grantees to the Group. A summary of these share options granted is as follows:

	<b>Number of Pre-IPO Options outstanding at 1.1.2002 and 31.12.2002</b>
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



## Directors' Report

Shares in the Company with initial payment of RMB1 upon each grant of options offered and the options granted must be taken up within 14 trading days from the date of grant. The Scheme will remain valid for a period of 10 years from the date on which the Scheme was adopted and approved by the shareholders of the Company (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Scheme). 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.

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. The total number of H Shares available for issue under options which may be granted under the Scheme and any other scheme, must not in aggregate, exceed 10% of the number of H Shares of the Company in issue as at the date of approval of the Scheme unless further shareholders' approval has been obtained pursuant to conditions set out in the Scheme. 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 to 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 has been granted by the Company under the Scheme since its adoption.

### Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 28 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 28 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;



## Directors' Report

- (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 or approved by the Company's shareholders.

### 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, subsisting at the end of the year or at any time during the year.

### Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 62% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 65% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 39% of the Group's total purchases.

None of the 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 provisions 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

During the year, 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.



# Directors' Report

The audit committee comprises two independent non-executive directors, Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis. Mr. Wong Ying Ho, Kennedy acts as the Chairman of the audit committee. During the year, four audit committee meetings were held. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

## Competing Interests

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

## Sponsor's Interests

Pursuant to the agreement dated 17th December, 2001, Core Pacific – Yamaichi Capital Limited (the "Sponsor") has received and will receive a fee for acting as the Company's retained Sponsor for the period up to 31st December, 2003 or until the Sponsor agreement is terminated upon the terms and conditions set out therein.

None of the Sponsor, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had 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, 2002.

## Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 29 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*

Hong Kong,  
20th March, 2003





# Supervisors' Report

To the shareholders,

During the financial year of 2002, 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-marking 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 2002 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 global unfavorable market environment persisted in the IT industry, the management of the Company was able to adopt appropriate reforms and strategies with a practical approach to leverage on the Company's advantages and maximize benefits for the Company. With unremitting efforts of the management, the Company achieved satisfactory operating results for 2002;
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 year, the Supervisory Committee's role in monitoring the management was strengthened by attending board meetings and reviewing regularly the Company's financial statements. The Supervisors are


## Supervisors' Report

of the opinion that the internal auditing and financial management of the Company were performed in strict accordance with the relevant accounting principles and that no improper disclosures were identified;

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.

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

By order of the Supervisory Committee



**LIU Jian**

*Chairman of the Supervisory Committee*

Hong Kong  
19th March, 2003

# 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 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

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

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

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

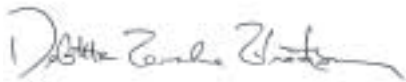
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also 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, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong,

20th March, 2003

# Consolidated Income Statement

For the year ended 31st December, 2002

	NOTES	2002 RMB'000	2001 RMB'000
Turnover	4	237,474	149,745
Cost of sales		(174,470)	(106,528)
Gross profit		63,004	43,217
Other operating income		16,135	5,417
Research and development costs		(19,408)	(24,552)
Marketing and promotional expenses		(9,141)	(7,052)
Administrative expenses		(36,626)	(25,687)
Profit (loss) from operations	5	13,964	(8,657)
Interest on bank and other borrowings wholly repayable within five years		(445)	(695)
Gain on disposal of interest in an associate		–	747
Share of losses of associates		(607)	(771)
Profit (loss) before taxation		12,912	(9,376)
Taxation	9	(2,410)	(916)
Profit (loss) before minority interests		10,502	(10,292)
Minority interests		(483)	359
Net profit (loss) for the year		10,019	(9,933)
Earnings (loss) per share - Basic	10	0.3 cents	(0.5) cents

# Consolidated Balance Sheet

At 31st December, 2002

	NOTES	2002 RMB'000	2001 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	229,458	207,375
Interests in associates	13	8,393	–
Investments in securities	14	15,350	15,350
Deposits made on acquisition of property, plant and equipment		1,015	6,971
		<b>254,216</b>	<b>229,696</b>
<b>Current assets</b>			
Inventories	15	28,415	5,374
Amounts due from customers for contract work	16	1,352	1,516
Trade and other receivables	17	77,913	66,171
Investments in securities		–	18,000
Amount due from an associate		735	–
Taxation recoverable		–	1,350
Pledged bank deposits		106,110	–
Bank balances and cash		235,112	455,300
		<b>449,637</b>	<b>547,711</b>
<b>Current liabilities</b>			
Trade and other payables	18	50,856	75,174
Customers' deposits for contract work		101,394	176,843
Taxation payable		1,505	–
Current portion of secured long-term bank loans		–	5,500
		<b>153,755</b>	<b>257,517</b>
<b>Net current assets</b>		<b>295,882</b>	<b>290,194</b>
<b>Total assets less current liabilities</b>		<b>550,098</b>	<b>519,890</b>
<b>Non-current liabilities</b>			
Other long-term loans	19	10,000	–
<b>Minority interests</b>		<b>492</b>	<b>4,060</b>
<b>Net assets</b>		<b>539,606</b>	<b>515,830</b>
<b>Capital and reserves</b>			
Share capital	20	289,809	286,900
Reserves		249,797	228,930
<b>Shareholders' funds</b>		<b>539,606</b>	<b>515,830</b>

The financial statements on pages 36 to 70 were approved and authorised for issue by the Board of Directors on 20th March, 2003 and are signed on its behalf by:

  
**DR. CHEN XINXIANG**  
 CHAIRMAN

  
**ZHANG YAN**  
 VICE CHIEF EXECUTIVE

# Balance Sheet

At 31st December, 2002

	NOTES	2002 RMB'000	2001 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	228,371	204,401
Investments in subsidiaries	12	4,500	8,580
Interests in associates	13	9,000	–
Investments in securities	14	15,350	15,350
Deposits made on acquisition of property, plant and equipment		1,015	6,971
		<b>258,236</b>	<b>235,302</b>
<b>Current assets</b>			
Inventories	15	28,353	4,336
Amounts due from customers for contract work	16	1,167	1,516
Trade and other receivables		77,763	59,644
Amounts due from subsidiaries		502	8,703
Amount due from an associate		735	–
Investments in securities		–	18,000
Taxation recoverable		–	1,350
Pledged bank deposits		106,110	–
Bank balances and cash		230,127	443,831
		<b>444,757</b>	<b>537,380</b>
<b>Current liabilities</b>			
Trade and other payables		49,811	73,544
Customers' deposits for contract work		101,394	176,843
Taxation payable		1,505	–
Current portion of secured long-term bank loans		–	5,500
		<b>152,710</b>	<b>255,887</b>
<b>Net current assets</b>		<b>292,047</b>	<b>281,493</b>
<b>Total assets less current liabilities</b>		<b>550,283</b>	<b>516,795</b>
<b>Non-current liabilities</b>			
Other long-term loans	19	10,000	–
<b>Net assets</b>		<b>540,283</b>	<b>516,795</b>
<b>Capital and reserves</b>			
Share capital	20	289,809	286,900
Reserves	22	250,474	229,895
<b>Shareholders' funds</b>		<b>540,283</b>	<b>516,795</b>



**DR. CHEN XINXIANG**  
CHAIRMAN



**ZHANG YAN**  
VICE CHIEF EXECUTIVE

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

	Share capital RMB'000	Share premium RMB'000	Deficit RMB'000	Total RMB'000
At 1st January, 2001	219,400	–	(4,368)	215,032
Issue of H shares upon listing	64,558	276,166	–	340,724
Exercise of over-allocation options	2,942	–	–	2,942
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	286,900	243,231	(14,301)	515,830
Exercise of over-allocation options	2,909	11,902	–	14,811
Expenses incurred in connection with the issue of shares	–	(1,054)	–	(1,054)
Net profit for the year	–	–	10,019	10,019
At 31st December, 2002	289,809	254,079	(4,282)	539,606



# Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	2002 RMB'000	2001 RMB'000
Operating activities		
Profit (loss) before taxation	12,912	(9,376)
Adjustments for:		
Interest income	(7,683)	(3,633)
Interest expenses	445	695
Share of losses of associates	607	771
Depreciation	35,557	14,377
Loss on disposal of property, plant and equipment in connection with the discontinued operations	–	57
Loss on disposal of other property, plant and equipment	302	196
Gain on disposal of interest in an associate	–	(747)
Operating cash flows before movements in working capital	42,140	2,340
Increase in inventories	(23,041)	(4,069)
Decrease (increase) in amounts due from customers for contract work	27,908	(80,743)
Increase in trade and other receivables	(11,742)	(55,292)
Increase in amount due from an associate	(735)	–
Increase in trade and other payables	9,723	21,234
(Decrease) increase in customers' deposits for contract work	(75,449)	175,000
Cash (used in) generated from operations	(31,196)	58,470
Mainland China income tax paid	(96)	(2,266)
Mainland China income tax refunded	541	–
Net cash (used in) from operating activities	(30,751)	56,204
Investing activities		
Interest received	7,683	3,083
Purchase of property, plant and equipment	(84,542)	(168,665)
Proceeds from disposal of property, plant and equipment	2,860	2,793
Acquisition of associates	(9,000)	–
Proceeds from disposal of an associate	–	2,500
Proceeds from disposal of investments in securities	18,000	–
Deposits paid on acquisition of property, plant and equipment	(1,015)	(6,971)
Increase in pledged bank deposits	(106,110)	–
Decrease (increase) in bank deposits not within three months of maturity	12,589	(12,695)
Net cash used in investing activities	(159,535)	(179,955)

# Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	NOTE	2002 RMB'000	2001 RMB'000
Financing activities			
Interest paid		(445)	(695)
Proceeds from issue of shares	24	14,811	343,666
Expenses incurred in connection with the issue of shares	24	(1,054)	(32,935)
Capital contributions from minority owners of subsidiaries	24	–	4,419
Borrowings raised	24	10,000	10,700
Repayment of borrowings	24	(5,500)	(16,700)
Payments to minority owner of a subsidiary on dissolution	24	(4,051)	–
Net proceeds (paid to) received on behalf of the State Social Security Fund Council	24	(31,074)	31,074
Net cash (used in) from financing activities		(17,313)	339,529
Net (decrease) increase in cash and cash equivalents		(207,599)	215,778
Cash and cash equivalents at 1st January		442,605	226,827
Cash and cash equivalents at 31st December		235,006	442,605
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		235,112	455,300
Less: Bank deposits not within three months of maturity		(106)	(12,695)
		235,006	442,605

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 1. General

The Company is a joint stock limited company established in Beijing, the People's Republic of China (the "PRC"). Its ultimate holding company is Beijing State-owned Assets Management Corporation Limited ("BSAM"), a state-owned enterprise, also established in the PRC.

The Company acts as an investment holding company and is also engaged in the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment.

## 2. Adoption of new or revised statements of standard accounting practice

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

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 33	Discontinuing operations
SSAP 34	Employee benefits

The adoption of these new or revised SSAPs has resulted in the introduction of statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have had no significant impact on the results for the current or prior accounting periods.

## 3. Significant accounting policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities. 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, 2002

## 3. 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 their 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.

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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. Significant accounting policies (continued)

### *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.

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

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

### *Property, plant and equipment*

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date. The cost of assets received from non-reciprocal transfers is established by reference 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 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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. Significant accounting policies (continued)

### *Property, plant and equipment (continued)*

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.

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

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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. Significant accounting policies (continued)

### *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 on the basis of 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 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 loss is recognised as an expense immediately.

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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. Significant accounting policies (continued)

### *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.

## 4. 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.

e-Government technology services - the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment to government body and its related entities.

e-Commerce technology services - the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment to non-government body and non-government related entities.

Internet service provision - provision of internet services.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. Business and geographical segments (continued)

Business segments for the year are as follows:

	2002		2001	
	Turnover RMB'000	Results RMB'000	Turnover RMB'000	Results RMB'000
Continuing operations				
– e-Government technology services	159,860	43,033	92,733	16,298
– e-Commerce technology services	77,614	(8,694)	50,377	(17,988)
	<b>237,474</b>	<b>34,339</b>	143,110	(1,690)
Discontinued operations				
– internet service provision	–	–	6,635	5,003
	<b>237,474</b>	<b>34,339</b>	<b>149,745</b>	<b>3,313</b>
Other operating income		16,135		5,417
Central administrative expenses		(36,510)		(17,387)
Profit (loss) from operations		<b>13,964</b>		(8,657)
Interest on bank and other borrowings wholly repayable within five years		(445)		(695)
Loss from interest in an associate engaged in e-Commerce technology services		–		(24)
Loss from interests in associates engaged in other businesses		(607)		–
Profit (loss) before taxation		<b>12,912</b>		(9,376)
Taxation		(2,410)		(916)
Profit (loss) before minority interests		<b>10,502</b>		(10,292)
Minority interests		(483)		359
Net profit (loss) for the year		<b>10,019</b>		(9,933)

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. Business and geographical segments (continued)

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.

### *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.

## 5. Profit (loss) from operations

	2002 RMB'000	2001 RMB'000
Profit (loss) from operations has been arrived at after charging:		
Directors' and supervisors' remuneration excluding fees (note 6)	938	903
Other staff costs	24,056	22,787
Other staff's retirement benefits scheme contributions	3,793	4,305
	<hr/>	<hr/>
	28,787	27,995
Less: Staff costs included in research and development costs	(6,305)	(7,040)
Staff costs capitalised in contract work	(9,559)	(6,453)
	<hr/>	<hr/>
	12,923	14,502

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 5. Profit (loss) from operations (continued)

	2002 RMB'000	2001 RMB'000
Depreciation	63,301	33,398
Less: Depreciation included in research and development costs	(4,953)	(5,919)
Depreciation capitalised in contract work	(27,744)	(19,021)
	<b>30,604</b>	<b>8,458</b>
Operating lease rentals in respect of		
– cable network	13,475	14,668
– land and buildings	12,067	12,355
	<b>25,542</b>	<b>27,023</b>
Less: Operating lease rentals included in research and development costs	(3,939)	(2,846)
Operating lease rentals capitalised in contract work	(1,753)	(10,027)
	<b>19,850</b>	<b>14,150</b>
Auditors' remuneration	658	650
Cost of goods sold	76,649	31,211
Loss on disposal of property, plant and equipment in connection with the discontinued operations	–	57
Loss on disposal of other property, plant and equipment	302	196
and after crediting:		
Government grants*	7,950	1,500
Interest income from		
– bank	2,887	3,083
– investment in held-to-maturity debt securities	4,796	550

\* 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, 2002

## 6. Directors' and supervisors' emoluments

	2002 RMB'000	2001 RMB'000
Fees for		
– independent non-executive directors	212	–
– executive directors, other non-executive directors and supervisors	–	–
Other emoluments for non-executive directors	–	–
	<b>212</b>	<b>–</b>
Other emoluments for executive directors		
– basic salaries and allowances	733	585
– bonus	–	70
– retirement benefits scheme contributions	49	90
	<b>782</b>	<b>745</b>
Other emoluments for supervisors		
– basic salaries and allowances	144	120
– bonus	–	20
– retirement benefits scheme contributions	12	18
	<b>156</b>	<b>158</b>
	<b>1,150</b>	<b>903</b>

For the year ended 31st December, 2002, basic salaries and allowances paid to the four executive directors were RMB190,000, RMB189,000, RMB179,000 and RMB175,000 respectively; while retirement benefits scheme contributions in respect of the four executive directors were RMB13,000, RMB12,000, RMB12,000 and RMB12,000 respectively. In addition, directors' fees paid to each of the two independent non-executive directors was RMB106,000.

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 retirement benefits scheme contributions in respect of the four executive directors were RMB28,000, RMB22,000, RMB20,000 and RMB20,000 respectively.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 6. Directors' and supervisors' emoluments (continued)

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.

During the year, four executive directors have waived emoluments of RMB298,000, RMB289,000, RMB248,000 and RMB263,000 respectively and a supervisor has waived emoluments of RMB44,000. None of the directors and supervisors had waived any emoluments in 2001.

## 7. Employees' emoluments

The aggregate emoluments of the five highest paid individuals included two executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining three highest paid individuals are as follows:

	2002 RMB'000	2001 RMB'000
Basic salaries and allowances	952	480
Bonus	–	86
Retirement benefits scheme contributions	12	32
	<b>964</b>	<b>598</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 8. 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 in 2001 were as follows:

	2002 RMB'000	2001 RMB'000
Turnover	–	6,635
Profit from operations	–	5,003

## 9. 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 the year represents PRC income tax calculated at the rate of 7.5% pursuant to the relevant rules and regulations in the PRC.

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

## 10. Earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the net profit for the year of RMB10,019,000 (2001: net loss of RMB9,933,000) and the weighted average number of 2,896,970,275 (2001: 2,214,339,411) shares in issue during the year.

No diluted earnings per share has been presented in 2002 because the exercise price of the Company's options was higher than the average market price of the Company's shares for the year.

No diluted loss per share has been presented for 2001 as the effect of the potential shares outstanding during the year was anti-dilutive.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 11. 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, 2002	49,766	15,081	151,821	1,414	36,378	254,460
Additions	19,800	68	20,249	1,161	47,268	88,546
Disposals	(2,253)	(935)	(276)	(547)	–	(4,011)
Transfers	–	–	81,044	–	(81,044)	–
At 31st December, 2002	67,313	14,214	252,838	2,028	2,602	338,995
DEPRECIATION						
At 1st January, 2002	11,473	3,491	31,934	187	–	47,085
Provided for the year	17,265	2,303	43,407	326	–	63,301
Eliminated on disposals	(609)	(92)	(62)	(86)	–	(849)
At 31st December, 2002	28,129	5,702	75,279	427	–	109,537
NET BOOK VALUES						
At 31st December, 2002	39,184	8,512	177,559	1,601	2,602	229,458
At 31st December, 2001	38,293	11,590	119,887	1,227	36,378	207,375

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 11. 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, 2002	48,575	14,604	151,545	870	35,566	251,160
Additions	18,649	60	20,249	1,158	47,268	87,384
Disposals	(445)	(450)	–	–	–	(895)
Transfers	–	–	80,232	–	(80,232)	–
At 31st December, 2002	66,779	14,214	252,026	2,028	2,602	337,649
DEPRECIATION						
At 1st January, 2002	11,273	3,454	31,888	144	–	46,759
Provided for the year	16,886	2,248	43,391	283	–	62,808
Eliminated on disposals	(289)	–	–	–	–	(289)
At 31st December, 2002	27,870	5,702	75,279	427	–	109,278
NET BOOK VALUES						
At 31st December, 2002	38,909	8,512	176,747	1,601	2,602	228,371
At 31st December, 2001	37,302	11,150	119,657	726	35,566	204,401



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 12. Investments in subsidiaries

	THE COMPANY	
	2002 RMB'000	2001 RMB'000
Unlisted capital contributions, at cost	4,500	8,580

The investment in subsidiary at 31st December, 2002 represents the Company's 90% equity interest in Beijing Certificate of Authority Center Company Limited which is established and operating in the PRC with a nominal value of fully paid registered capital of RMB5,000,000 and engaged in the provision of services related to digital certificates.

## 13. Interests in associates

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Share of associates' net assets	8,393	–	–	–
Unlisted capital contributions, at cost	–	–	9,000	–

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 13. Interests in associates (continued)

Details of the Company's associates, which are established and operating in the PRC, at 31st December, 2002 are as follows:

Name of associate	Proportion of nominal value of registered capital held directly by the Company	Principal activities
北京信用管理有限公司 (Beijing Credit Bureau Co., Ltd.)	25%	Provision of credit rating and reporting and risk assessment related information and consultancy services
北京首通萬維信息技術發展有限公司 (Beijing Shoutong Wanwei Information Technology Development Co., Ltd.)	40%	Provision of information application services and related businesses

## 14. Investments in securities

	THE GROUP AND THE COMPANY	
	2002 RMB'000	2001 RMB'000
Held-to-maturity debt securities	–	18,000
Unlisted other investments	15,350	15,350
	15,350	33,350
Carrying amount analysed for reporting purposes		
– non-current assets	15,350	15,350
– current assets	–	18,000
	15,350	33,350

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 14. Investments in securities (continued)

Details of other investments, all of which are established in the PRC, at 31st December, 2002 are as follows:

Name of investee	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

## 15. Inventories

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Raw materials	1,363	1,272	1,301	1,078
Equipment held for sales	27,052	4,102	27,052	3,258
	<b>28,415</b>	<b>5,374</b>	<b>28,353</b>	<b>4,336</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 16. Amounts due from customers for contract work

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Contract costs incurred to date	151,869	69,312	151,684	69,312
Recognised profits less recognised losses	82,388	23,233	82,388	23,233
	234,257	92,545	234,072	92,545
Less: Progress billings	(232,905)	(91,029)	(232,905)	(91,029)
	1,352	1,516	1,167	1,516

## 17. Trade and other receivables

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Trade receivables from		
– a fellow subsidiary	997	623
– others	47,016	25,963
	48,013	26,586
Other receivables	29,900	25,220
Deposits made to a minority owner of a subsidiary on acquisition of equipment for sales	–	13,030
Interest receivables	–	1,335
	77,913	66,171

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 17. Trade and other receivables (continued)

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	
	2002 RMB'000	2001 RMB'000
Age		
0 to 60 days	32,053	25,527
61 to 90 days	2,179	–
91 to 180 days	306	163
Over 180 days	13,475	896
	<b>48,013</b>	<b>26,586</b>

## 18. Trade and other payables

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Trade payables	10,334	2,326
Other payables	32,601	34,703
Other customers' deposits	7,921	7,071
Amount due to the State Social Security Fund Council of the PRC (the "Vendor")	–	31,074
	<b>50,856</b>	<b>75,174</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 18. Trade and other payables (continued)

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

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Age		
0 to 60 days	8,531	1,892
61 to 90 days	28	–
91 to 180 days	19	–
Over 180 days	1,756	434
	<b>10,334</b>	<b>2,326</b>

## 19. Other loans

The other loans are repayable as follows:

	THE GROUP AND THE COMPANY	
	2002 RMB'000	2001 RMB'000
More than one year, but not exceeding two years	2,000	–
More than two years, but not exceeding five years	8,000	–
	<b>10,000</b>	<b>–</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 20. Share capital

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Balance of share capital of RMB1 each at 1st January, 2001	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	–	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 at 31st December, 2001	2,126,497,182	742,498,000	286,900
Exercise of over-allocation options	(2,909,091)	32,000,000	2,909
Balance of share capital of RMB0.10 each at 31st December, 2002	2,123,588,091	774,498,000	289,809

In January 2002, 29,090,909 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 21(b).

## 21. 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.

None of the pre-IPO share options has been exercised during the year.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 21. Share options (continued)

### (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.

During the year, certain Over-allocation Options were exercised to acquire 2,909,091 (2001: 2,942,099) domestic shares from the Vendor and to request the Company to allot 29,090,909 (2001: 29,420,989) H Shares at a price of HK\$0.48 per H share. The remaining Over-allocation Options lapsed on 15th January, 2002.

### (c) *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 of Hong Kong Limited (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.

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 schemes 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 to 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 has been granted by the Company under the Scheme since its adoption.

No charge is recognised in the income statement in respect of the value of options granted.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 22. Reserves

	Share premium RMB'000	Deficit RMB'000	Total RMB'000
THE COMPANY			
At 1st January, 2001	–	(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
Exercise of over-allocation options	11,902	–	11,902
Expenses incurred in connection with the issue of shares	(1,054)	–	(1,054)
Net profit for the year	–	9,731	9,731
At 31st December, 2002	254,079	(3,605)	250,474

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.

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.



# Notes to the Financial Statements

*For the year ended 31st December, 2002*

## **22. Reserves (continued)**

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 the Company reported deficit determined in accordance with PRC accounting standards and regulations at the balance sheet date. 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.

## **23. Dissolution of a subsidiary**

During the year, a subsidiary, Beijing Citizen Card Company Limited was dissolved. The remaining net assets of the subsidiary at the date of disposal was represented by bank balances and cash of RMB8,269,000, of which RMB4,051,000 was returned to the minority owner.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 24. Analysis of changes in financing during the year

	Share capital RMB'000	Share premium RMB'000	Bank loans RMB'000	Other loans RMB'000	Minority interests RMB'000	Amount due to the Vendor RMB'000
At 1st January, 2001	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 owners of subsidiaries	–	–	–	–	4,419	–
Share of losses by minority owners 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
Proceeds from issue of shares	2,909	11,902	–	–	–	–
Expenses incurred in connection with the issue of shares	–	(1,054)	–	–	–	–
Borrowings raised	–	–	–	10,000	–	–
Repayment of borrowings	–	–	(5,500)	–	–	(31,074)
Share of profits by minority owners of subsidiaries	–	–	–	–	483	–
Payments to minority owners of a subsidiary on dissolution	–	–	–	–	(4,051)	–
At 31st December, 2002	289,809	254,079	–	10,000	492	–

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 25. Operating lease commitments

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

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Land and buildings				
Within one year	7,092	12,913	7,013	11,574
In the second to fifth year inclusive	11,675	21,849	11,511	14,849
After five years	260	4,381	260	338
	<b>19,027</b>	<b>39,143</b>	<b>18,784</b>	<b>26,761</b>
Cable network				
Within one year	240	5,597	240	6,084
In the second to fifth year inclusive	320	560	320	560
	<b>560</b>	<b>6,157</b>	<b>560</b>	<b>6,644</b>

## 26. Capital commitments

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	20,641	34,205	19,471	33,036

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 27. 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.

## 28. Connected transactions

During the year, the Group has the following discloseable connected transactions:

Name of connected company	Nature of transactions	THE GROUP	
		2002 RMB'000	2001 RMB'000
CNC Beijing Communication Corporation ("CNC Beijing") (formerly known as China Telecom Group Beijing Corporation)	Fixed line services paid		
	– rental fee	240	240
	– service line fee	–	1,949
	Dedicated circuit leasing services paid	6,559	5,963
	Information port connection services paid	5,844	5,844
	Telephone related services paid	1,380	1,233
Capnet	Comprehensive services income received	3,466	1,650

In May 1999, the Group entered into an agreement with CNC Beijing, the controlling shareholder of a promoter of the Company in which CNC 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 CNC Beijing's frame relay network; (iii) Capital Public Information Platform ("CPIP") connection with CNC 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 years thereafter if neither party objects to the renewal in writing 3 months prior to the expiry of the initial 3 year term.

# Notes to the Financial Statements

*For the year ended 31st December, 2002*

## 28. Connected transactions (continued)

In November 2000, the Group entered into an agreement with 北京市電信公司營業局 (CNC Beijing Communication Business Bureau) ("BB-BTC"), a department under CNC 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. On 27th January, 2003, the Company and BB-BTC entered into a renewal agreement for further extending the term of the agreement to expire on 30th June, 2004. The renewal agreement was approved by the Company's shareholders in an extraordinary general meeting held on 27th January, 2003.

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. The extension was approved by the Company's shareholders in an extraordinary general meeting held on 10th May, 2002. On 27th January, 2003, the Company and BB-BTC entered into a renewal agreement for further extending the term of the agreement to expire on 30th June, 2004. The renewal agreement was approved by the Company's shareholders in an extraordinary general meeting held on 27th January, 2003.

In August 2001, the Company entered into a comprehensive services agreement with Capnet, a subsidiary of BSAM, 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.

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 8.

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.

In April 2002, the Company entered into an agreement with its ultimate holding company BSAM and other independent investors under which the Company contributed RMB5,000,000, being 25% of the registered capital to establish an associate Beijing Credit Bureau Co., Ltd to engage in the provision of credit rating and reporting and risk assessment related information and consultancy services.

# Notes to the Financial Statements

*For the year ended 31st December, 2002*

## **28. Connected transactions (continued)**

In October 2002, the Company entered into an agreement with BSAM under which the Company contributed RMB4,000,000, being 40% of the registered capital to establish an associate Beijing Shoutong Wanwei Information Technology Development Co., Ltd. to engage in the provision of information application services and related businesses.

The above transactions were carried out after negotiations between the Group and the connected party.

## **29. Post balance sheet events**

In January 2003, the Company entered into a conditional agreement to acquire CNC Beijing's 28% interests in 北京正通網絡通訊有限公司 (Beijing Zhengtong Network Communication Co., Ltd.), which is established in the PRC and engaged in 800M digital integration of mobile phone, phonetic data and image business, for a consideration of RMB56,000,000.

Also, in January 2003, the Company entered into a conditional agreement to rent office premises for an annual rentals of RMB4,100,000 for a term of three years commencing March 2003 from 北京集成電路設計科技園有限責任公司 (Beijing IC Design Park Co., Ltd.), a subsidiary of BSAM.

# Financial Summary

	Year ended 31st December,			
	1999	2000	2001	2002
	RMB'000	RMB'000	RMB'000	RMB'000
<b>RESULTS</b>				
Turnover	14,702	49,854	149,745	237,474
Profit (loss) before taxation	3,996	(6,153)	(9,376)	12,912
Taxation	–	–	(916)	(2,410)
Profit (loss) before minority interests	3,996	(6,153)	(10,292)	10,502
Minority interests	–	–	359	(483)
Net profit (loss) for the year	3,996	(6,153)	(9,933)	10,019

	As at 31st December,		
	2000	2001	2002
	RMB'000	RMB'000	RMB'000
<b>ASSETS AND LIABILITIES</b>			
Total assets	356,651	777,407	703,853
Total liabilities	(141,619)	(257,517)	(163,755)
Minority interests	–	(4,060)	(492)
Shareholders' funds	215,032	515,830	539,606

Note:

- (a) The results for each of 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 re-organised 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 annual general meeting (“AGM”) of Capinfo Company Limited (the “Company”) will be held at Conference Room of Beijing COFCO Longquan Resort, Longquanwu, Mentougou District, Beijing, The People’s Republic of China on Monday, 12th May, 2003 at 10:00 a.m. for the following purposes:

## I. As ordinary resolutions

1. To consider and approve the supervisors’ report for the year 2002;
2. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries and the directors’ and auditors’ reports for the year ended 31st December, 2002;
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 the granting of the necessary approval by The China Securities Regulatory Commission (“CSRC”), The Stock Exchange of Hong Kong Limited and other regulatory bodies and subject to the Rules Governing The Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Board be authorized 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 once every twelve months, not more than 20% of each of the existing issued Domestic Shares and H Shares (unless revoked or varied by special resolution in general meeting), and to make or grant offers, agreements and options which might require the exercise of such powers be generally approved;

# Notice of Annual General Meeting

- (2) 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.”

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 relevant 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,  
26th March, 2003

\* For identification purpose only



# Notice of Annual General Meeting

## Notes:

1. The register of shareholders of the Company will be closed from 12th April, 2003 to 12th May, 2003 (both days inclusive), during which no transfer of the Company's 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 11th April, 2003 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 Rooms 1901-05, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shares) or the Company's registered office (for Domestic Shares) not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
5. Shareholders 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 Rooms 1901-05, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shares) or the Company's registered office (for Domestic Shares) on or before Tuesday, 22nd April, 2003. The reply slip may be delivered by hand or by post.