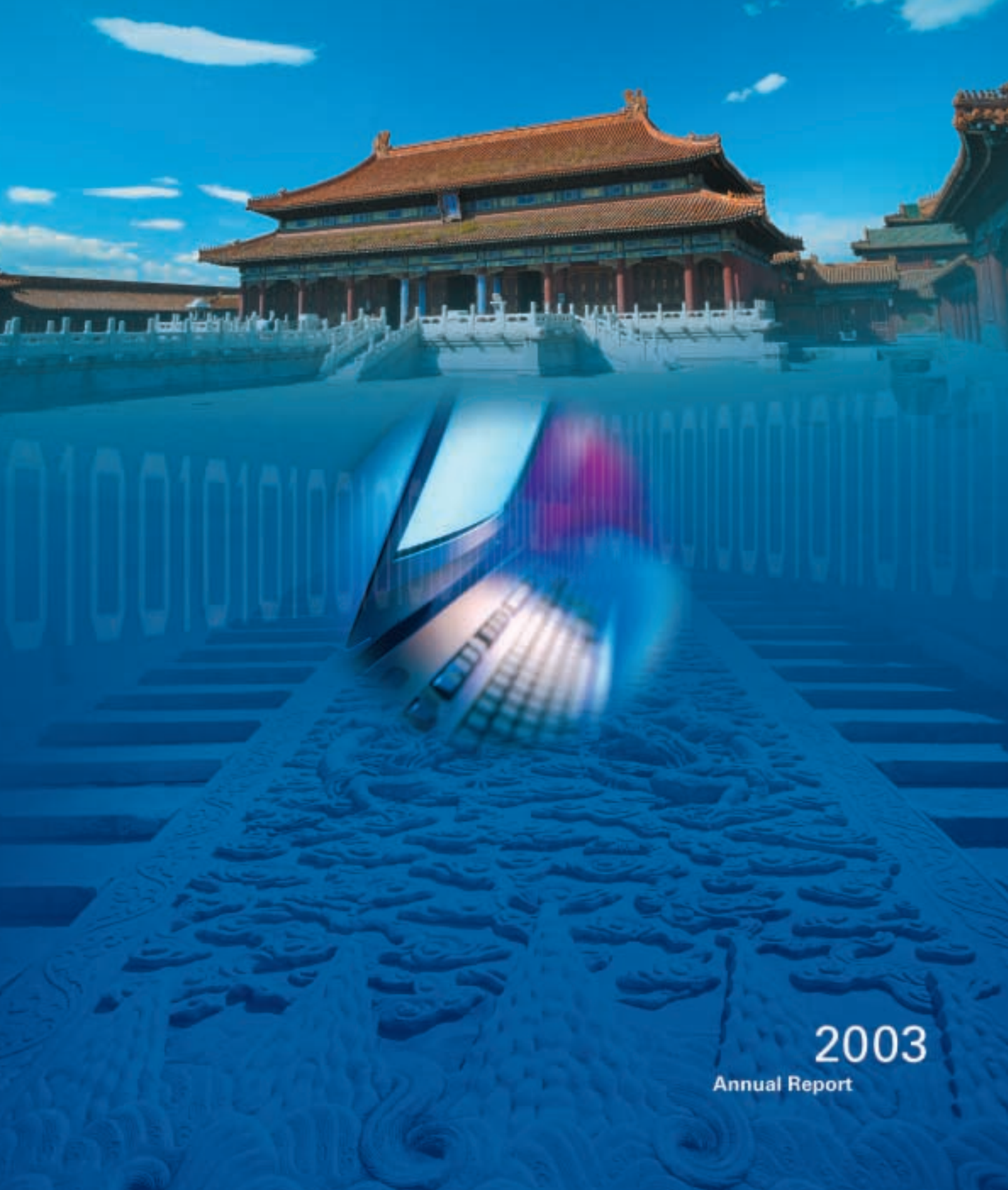




Capinfo Company Limited

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



2003

Annual Report



# 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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<b>Registered Office</b>	No. 11 Xi San Huan Zhong Road Beijing 100036 The People's Republic of China (the "PRC")
<b>Principal place of business in Hong Kong</b>	Rooms 3705-6 37th Floor, Gloucester Tower The Landmark Central Hong Kong
<b>Principal place of business in the PRC</b>	12th Floor Quantum Silver Plaza No. 23 Zhi Chun Road Haidian District Beijing, PRC
<b>GEM Stock Code</b>	8157
<b>Website address</b>	<a href="http://www.capinfo.com.cn">www.capinfo.com.cn</a>
<b>Company Secretary</b>	Mr. LO Wai Tat, Andrew, ACCA, AHKSA (盧偉達先生)
<b>Compliance Officer</b>	Ms. ZHANG Yan (張延女士)
<b>Qualified Accountant</b>	Mr. LO Wai Tat, Andrew, ACCA, AHKSA (盧偉達先生)
<b>Audit Committee</b>	Mr. WONG Ying Ho, Kennedy ( <i>Chairman</i> ) (黃英豪先生) Mr. NG Kin Fai, Francis ( <i>Member</i> ) (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

On behalf of Capinfo Company Limited ("Capinfo" or the "Company") and its subsidiaries (collectively the "Group"), I would like to present the annual report for the year ended 31st December, 2003 to our shareholders.

2003 was a year of challenges and opportunities to the Group. The Group obtained the order of technical development and platform support for the website ([www.beijing-olympic.org.cn](http://www.beijing-olympic.org.cn)) of the Beijing Organizing Committee for the Games of the XXIX Olympic, after its successful bid of Beijing emergency response system due to its good reputation and quality service. In the face of a sudden outbreak of Severe Acute Respiratory Syndrome ("SARS"), the Group was commissioned by the Beijing Municipal Government to actively develop the SARS information reporting system and Beijing suburb and rural area epidemic prevention and control information system which firmly ensured prompt delivery of relevant information to the Municipal Government for scientific decision-making and struggle against the disease. Meanwhile, the Group survived the unfavorable influences of SARS and took an active role in the informatization of Beijing and expanded aggressively into markets outside Beijing, and achieved results with great effort.

The Group saw steady development in its traditional core businesses. Construction of the e-Government private network which relied on the Capital Public Information Platform was being progressed smoothly and applications based on this private network were also developed gradually. The ability to process mass data and the stability of the Beijing Medical Insurance System had been steadily improved. The various subsystems developed solely by the Group were put into operation one by one. The projects of research and development of the Beijing Community Services Information Network System and the Beijing e-Commerce Platform had successfully passed the testing and acceptance procedures.

## Chairman's Statement



Leveraging on its extensive experience in digital cities construction, the Group actively expanded into the Northeastern, Central and Southern China markets through provision of comprehensive city informatization services, including consultation, management and software development, to certain departments of the local governments. The relevant projects had already passed the test and acceptance procedures.

During the year, the Group continued to devote resources and put much effort on research and development in the areas of software development, Information Kiosk and wireless technology applications which would enhance our competitive edge in the industry and region. The Group was devoted to general research of the Multilingual Intelligent Information Service Network System for the Beijing 2008 Olympic Games, a key item of the State's "863 Project," and at the same time, worked closely with the Committee of the Beijing Olympic Games. As a result, the Group actively worked on the intermediate website for the 29th Olympic Games, paving the way for further participation in the informatization of 2008 Beijing Olympic Games.

Accompanied with the recovery of information technology market, more opportunities are found in the e-Government and e-Commerce markets of China. The Group will continue to enhance its internal management and operation system, strengthen its ability in software development and competitiveness, and provide better service to customers for more satisfactory returns to our investors.



On behalf of the Board, I would like to extend my sincere gratitude and appreciation to our shareholders and parties for their care and support, and our hardworking staff for this fiscal year.

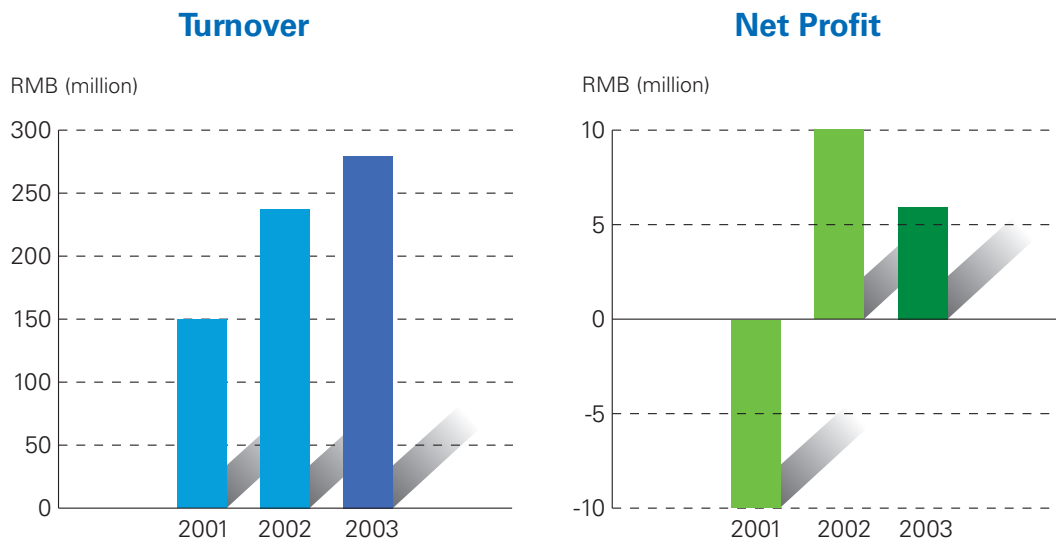
**Dr. CHEN Xinxiang**

*Chairman*

Beijing, the Peoples' Republic of China  
19th March, 2004

# Management Discussion and Analysis

## Financial Review



The board of Directors (the "Board") of Capinfo Company Limited (the "Company") announces that, for the year ended 31st December, 2003, the Company and its subsidiaries (collectively the "Group") recorded an audited turnover of approximately RMB280 million, representing an increase of approximately 18% as compared with that of last year, and a gross profit margin of 25%, as compared with 27% for last year. The Group has accomplished an audited net profit of approximately RMB5.9 million for the year under review, representing a decrease of approximately 41% as compared with that of last year.

During the year under review, the Group devoted much resources to marketing which resulted in not only increase in revenue but also increase in marketing and promotional expenses.

The businesses including credit rating, information kiosk and emergency aid system carried out by the Group's associates and jointly controlled entity which were newly incorporated in recent years were still at the early development stage. Losses sustained by such associates and jointly controlled entity in addition to the increase in marketing and promotional expenses mentioned above were attributable to the decrease in net profit for the year under review.

Gross profit margin for the year under review decreased slightly is resulted from normal variations in gross profit of different projects. Other operating income mainly included interest income and government grants.

The Group's current ratio, defined as total current assets over total current liabilities, increased from 2.9 to 3.7 while the gearing ratio, defined as total borrowing over net assets, stayed at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.



## Management Discussion and Analysis

As at 31st December, 2003, the Group had unsecured borrowings of RMB10 million at an annual interest rate of 2.55%, out of which, RMB2 million will become mature within 1 year and RMB8 million will mature within 2 - 5 years from 31st December, 2003. Cash and bank deposits of the Group were RMB260 million as at 31st December, 2003 which mainly came from shareholders' contribution and working capital generated from operations.

As at 31st December, 2003, the Group had no assets pledged and had capital commitment of approximately RMB57 million.

As at 31st December, 2003, the Group had no significant contingent liabilities and, during the period under review, the Group's financial position was not exposed to significant fluctuations in exchange rates and any related hedges.

### Business Review

Our businesses saw stable development during the year under review. The Group continued to provide quality products and services in sectors of e-Government and e-Commerce, and further devoted resources and increased effort on research and development in software development and application of information kiosk and wireless technology, enhancing the satisfaction of clients of the Group.

### Capital Public Information Platform

During the year under review, the Group made smooth progress in the business of e-Government private network based on Capital Public Information Platform. As at the end of 2003, more than 300 government departments made access to e-Government private network through optical cable and the application based on this e-Government private network also developed gradually. Over 20 government departments, such as the General Office of the Communist Party



Commission of Beijing Municipality, the General Office of People's Government of Beijing Municipality, the Industrial and Commercial Administration Bureau of Beijing Municipality, the Beijing Finance Bureau, developed their e-Government business systems on the base of this e-Government private network. Such systems included Beijing Investment Project Approval Platform, Beijing Enterprise Credit Information System, Beijing Non-paper Official Document Transmission System, etc. The Group also provided the Road Administration Bureau of Beijing Municipality with the service of video conference based on the e-Government private network, and the Group recently signed a contract with the Beijing Municipal Commission of Urban Planning to set up a video conference system for it.

### **Medical Insurance System and Citizen Card Business**

During the year under review, the Beijing Medical Insurance Information System proved smooth and its sub-systems, such as the cadre coordination system for retiree, social insurance collection system and, for Chaoyang District of Beijing City, the rural new cooperative medical insurance information system, succeeded in launching online operation. The Group has already acquired the core technologies, including four sub-systems of medical insurance payment, social insurance collection and collection, social insurance finance and hospital termination, and steadily improved mass data treatment capacity and system stability. The Group is engaged in the development of the medical insurance statistical inquiry and decision-making support system of Beijing Municipality, which will serve high-level users as an independent system.

The Group also made progress in the business of Citizen Card by completing the development of “Beijing Citizen Card Project Photo Digital Collection and Integration System”. When this system operates, 70-80 thousand photos can be collected daily. As at December of 2003, the work of photo collection and integration for approximately 3.5 million people was completed. The main work of “Prototype Data Switching System for Multiple Applications of Beijing Citizen Card” was completed, basically realizing the workflow of various business of citizen card data exchange. The testing platform of user card and PSAM card were designed and established for the development of multi-application citizen card testing platform, and the Group is involved in the design of equipment testing platform and the establishment of application analogue environment.

### **e-Community Business**

During the year under review, the Group’s business of e-Community developed smoothly. After the launch of “PC version of the Community Management Information System”, the office of information of Beijing Municipality arranged for a group of test and acceptance experts to conduct a strict examination on “Beijing community services Information Network System” in December of 2003. The experts held the view that this system had a reasonable technological framework and completed functions, integrating access channel, platform data standard, operation management and service standard in compliance with the design. Now this system has passed the acceptance procedures successfully.

## Management Discussion and Analysis

This system includes a group of web sites covering 175 community service websites citywide, “96156 hotline” and the community management software for comprehensive resident information in a community that is able to provide over 200 types of community services to residents through various ways of information access. The establishment of this system altered the existing manual work such as registration reporting, investigation and statistical work of community resident

commission. It has also provided a reliable base for community management and scientific decision-making of government bodies at various levels through complete, accurate and detailed record of community management information.



### Digital Certificate Business

During the year under review, the Group achieved growth in the area of digital certificates by strengthening its support in sales channel, and laid a sound foundation for the future development. The digital certificate has been widely applied in all branches of Beijing Commercial Bank (北京市商業銀行), and over 100 offices where digital certificate business were founded.

During the year under review, the Group undertook the establishment of the municipal level platform security assurance system under the second phase of Beijing e-Government online approval project and part of security system for municipal government departments. In addition, the Group became qualified to undertake the development of security projects of district level governments in the districts like Dongcheng district and Mentougou district.

The Group is in the research for the application of PKI to Linux platform in order to make our solution applicable to various platforms.





## Management Discussion and Analysis

### **Electronic Payment Business**

During the year under review, the Group made every effort to support the development of online payment business. Recently, the Group made service agreements with universities such as Peking University and Tsinghua University to provide services of security cryptography, identity authentication, online secure payment and online inquiry for the online enrolment system for them. The total number of users was increased by almost 70 percent compared with that of the previous year, while the transaction volume and amount of transactions on [www.beijing.com.cn](http://www.beijing.com.cn) had increased by almost three times compared with that of the previous year.

### **Beijing Emergency Response System**

In March 2003, the Group won the tender offered by the Beijing Government Office for the Beijing Emergency Response System. As the system's developer and service provider, the Group will provide various services including plan design and software development. Upon completion, the system will enhance Beijing's ability to handle the outbreaks of large-scale emergency events, and help Beijing to host successfully the 2008 Olympic Games.

### **Corporate Credit Business**

During the year under review, Beijing Credit Bureau Co., Ltd ("Beijing Credit"), which was an associate of the Group, actively developed the credit rating business. The company has begun to provide corporate credit rating service in the projects of "Small and Medium-Sized Enterprises Financial Support Project" and "Zhongguanchun Credit System Establishment," making a significant breakthrough in the credit rating business in the market.

Beijing Credit has made major progress in data collection as it has obtained the data covering 700 thousand enterprises and 2.1 million individuals. Meanwhile, Beijing Credit actively cooperated with partners in the credit industry and delivered a variety of products and services. As an important partner in "Beijing futures credit system construction project," Beijing Credit signed a cooperative agreement with the Chamber of Futures Commerce of Beijing to further improve the credibility of Beijing securities and futures market.



## Management Discussion and Analysis

Beijing Credit recently launched the project of credit data exchange centre in Beijing. In November, 2003, the Development Planning Committee of the People's Government of Beijing Municipality (北京市發展和改革委員會) reviewed and approved the feasibility research report of Beijing credit data exchange centre project submitted by Beijing Credit. This project was part of "the demonstration project of joint establishment of social credit service system" administered by the National Development and Reform Commission (國家發展和改革委員會).

### Entry into the Market Outside Beijing

During the year under review, the Group, armed with its rich experience in urban information construction, made special efforts to enter the market of northeastern, central and southern China. In northeastern China, the Group made an agreement with the government of Panjin city to undertake the planning, design, construction and operation of e-Government project in this city after the Group's cooperation with Yingkou city. In central China, capitalizing on its rich experience in e-Government, the Group successfully cooperated with the government of Wuhan city by undertaking the tasks of the planning, design and construction of local community management information system. In southern China, the first phase of digital community project of Shilong township of Dongguan city undertaken by the Group has passed testing and acceptance procedures, and the Group recently also won the bid in the tender of Golden Shield Project of Zhongshan city. The Group rapidly expanded its business and laid a foundation for the establishment of a business network across the country.

### Investment and Business Development

To better develop Beijing Emergency Response System, the Group invested RMB4 million in July of 2003 to jointly set up China BPS Information Technology Co., Ltd (北京中佳訊信息技術有限公司) with other partners. The Group holds 40% interests in this company. This Company will be responsible for the construction and design of the "Beijing Emergency Response System". Now this company has already completed the research and development of wireless mobile video conferencing system, wireless mobile video monitoring system, and is in the process of active research and development of the wireless mobile IP products for the emergency aid system.

The Group co-founded Chongqing Hongxin Company Limited with the Business Incubator of Chongqing Hi-tech Industrial Development Zone in July of 2003. The Group invested RMB18 million in this company and holds 90% interests in it. The business of this company made progress smoothly. Recently it has completed the research and development of part of key technologies of business intelligence software and education software and has cooperated widely with local government bodies, scientific institutions and well-known enterprises in the sector.



## Management Discussion and Analysis

In September of 2003, the Group and Beijing Municipality State-owned Assets Management Corporation Limited (“BSAM”) further invested RMB12 million and RMB18 million respectively in Touch Beijing IT Development Co., Ltd (北京首通萬維信息技術發展有限公司) (“Touch Beijing”), leading to an increase in the registered capital of Touch Beijing to RMB40 million and making the Group and BSAM hold 40% and 60% interests in it respectively. Touch Beijing made smooth progress in its core business, namely “Digital Beijing Information Kiosk.” Recently, Touch Beijing has established over 300 multimedia information kiosks in important areas and along the two sides of busy streets, providing citizens with information service, such as ticket purchase, e-map, public transportation inquiry, government information and mayor’s letter box. Touch Beijing is actively cooperating with other service providers in the hope of providing Beijing’s citizens with richer and more reliable services.

In November of 2003, the Group made a transfer agreement with part of shareholders of Beijing Co-Creat Open Source Software Co., Ltd (北京市共創開源軟件有限公司) (“Beijing Co-Creat”) to acquire 30.8% stake held by them at the price of RMB3.77 million and became the largest shareholder. Beijing Co-Creat is especially involved in the research and development, sales and technology and management consultation of Linux operation system and other software. Beijing Co-Creat will adopt its technological advantage and management experience to continue the development of desk Linux system and the application system based on the desk Linux system.

During the year, the Group acquired 10% equity interests of Beijing Clone Century Information Engineering Technology Co., Ltd. (北京科龍新銳信息工程技術有限公司) in order to develop informatization application business in medical and healthcare sectors. After the acquisition, such company changed its name to Health Information Technology Beijing Co., Ltd. (北京首信新銳科技發展有限公司).

### Research and Development

During the year under review, the Group completed the research on “urban informatization overall framework, key technology and engineering application,” the state’s “863 Project.” This task includes proposing “urban public information platform construction plan” for further improvement of the capital public information platform and forming “urban informatization overall solution” based on the capital city informatization.

The Group completed the copyright registration of Workflow Engine V2.0. The research and development and the function expansion of Workflow Engine V2.1 are underway, including integration of data exchange, information service and event information arrangement, forming the basic framework of “general platform of electronic public service.”



## Management Discussion and Analysis

The Group completed “the research and development of Chinese standard cable modem security mechanism”, including the development of three modules, namely the identity authentication of EuroDOCSIS standard Cable Modem, key management protocol and data package encryption and decryption. Currently, the Group is engaged in the system testing of large volume of flow and the revision of the report of “the construction and operation of identity authentication system of Chinese standard cable modem”.

The “Multi-lingual Intelligent Information Service Network System for Olympic Games,” a major project of the Beijing’s technological plan and State’s “836 Project,” entered the stage of system integration. The Group further improved service demand analysis and system overall framework design, and performed the relevant interface technology research. The Group completed the construction of this system resources bank and created the prototype system of multi-lingual search engine and multi-lingual information processing platform, a project that has now passed the interim testing smoothly. The Group is actively promoting the establishment of multi-lingual processing international standard.

### Employees

As at 31st December, 2003, the Group had a total of 547 employees, (2002: a total of 515 employees). During the year under review, the Group set up remuneration and examination board and issued “position establishment and remuneration framework management regulation” in order to make more accurate determination on the remuneration according to the comprehensive performance, qualifications and experience of employees and to enhance the efficiency of the overall operation of the Group. Discretionary bonus and additional retirement pension schemes based on individual performance will be provided to individual employees as recognition of and reward for their contribution. Other benefits available to employees include retirement benefits and share options. Total staff costs paid during the year were approximately RMB48 million (2002: RMB29 million).

### Prospect

As the Chinese Government inputs more resources in urban information, the business of the Group with a focus on e-Government will continue to keep a fast pace of growth. The Group will further increase its input in the research and development of software in respect of e-Government technology, multi-lingual intelligent information service system, urban informatization research and the key technology such as Linux in order to maintain the technological advantage of the Group. The Group will also improve its organization framework and strengthen internal management to raise the Group’s operation efficiency and core competitiveness for consolidating its leading position in the industry.

# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2003 to 31st December, 2003

## *Business Objectives*

## *Actual Progress*

### *Products and services launching*

To launch a one-stop Internet office suite which will serve as an integral part of the e-Government solutions offered by the Group, it will establish an online service platform for the PRC Government with the adoption of Web technology, Web services technology and XML technologies for the provision of public services that are geared to the needs of enterprises (G2B), individuals (G2P) and other government departments (G2G), and such public services may include enterprise registration examinations and approval, online tax declaration, online custom declaration, immigration, examination and approval and inter-departmental cooperation of judicial systems, social security systems and cross-community services

A new version of workflow engine technology was under research and development, and more functions were being designed, including the integration of data exchange, information services and event information arrangement, which would form the basic framework of the Public Service Electronic Common Platform.

To launch credit rating service

Beijing Credit started to provide corporate credit rating services in the Projects of "Small and Medium-Sized Enterprises Financial Support Project" and "Zhongguancun Credit System Establishment" (中關村信用體系建設項目). It also achieved substantial progress in data collection covering 700 thousand companies and 2.1 million individuals.

To launch CRM module based on the operating environment of i-Service

The CRM module had been applied in the call centre services of the Beijing Heat Supply Hotline as provided by the Group recently. The core components of the module were the Knowledge Tree and the Customer Response Processing System. Its application had simplified the operational process and enabled analysis of customers' needs as well.



# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2003 to 31st December, 2003

## *Business Objectives*

To launch the i-Service 3.0 version which can be operated on the multimedia platform, and provide more security functions and personalized services

To launch a platform to perform cross sections workflow tasks

Continue to launch security systems on wireless appliances

To launch wireless CA services

To incorporate call centre functions with the integrated community systems

## *Actual Progress*

Three core modules i.e. Unified Authorized Visits Control Module, Information Exchange Platform and Workflow Engine based on the i-Service 3.0 platform were launched. These three core modules facilitated the application and marketing of the i-Service 3.0 platform.

Related research has been proceeded accordingly. The Capinfo Workflow Engine V2.0 edition has been launched and implemented in the "Beijing labour and social security bureau office automation system" and "Foshan Tax Bureau Office Platform."

Development of wireless mobile video conferencing and wireless mobile monitoring systems were completed. Certain wireless mobile IP products were launched while research and development of this kind of products was in progress.

Due to the limited calculating function of wireless portable appliances, the specific launching plan of the wireless CA services was not yet designed. With the extensive usage of 3G phones, launching plan would be designed in accordance with the prevailing market conditions.

Beijing Community Services Information Network System, which has integrated the call centre functions, was completed and accepted as scheduled.

# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2003 to 31st December, 2003

## *Business Objectives*

## *Actual Progress*

### *Sales and Marketing*

To cooperate with other intermediaries such as banks and third party guarantee service institutions for the promotion and joint advertising campaign of credit rating services in the PRC

Beijing Credit is building the "Beijing Social Credit Union" (北京社會信用聯盟) with major communications and financial institutions in Beijing. Beijing Credit completed construction of the Credit Information Platform and would launch the information inquiry service soon to realize information sharing for the Union.

Continue to promote e-Commerce solutions and services to other cities in the PRC through the development of additional sales channel comprising sales agents

Proceeded with the optimization of the entire solution and penetration of potential markets. More efforts have been made to increase sales outside Beijing through sales agents (Zhongguancun Technology Software was authorized to act as an agent for Capinfo products and participate in tendering of the project of "Construction of sales and marketing information system for Yuxi Hongta Tobacco (Group) Co. Ltd").

Continue to cooperate with major commercial corporations in Beijing for the commercialisation of the information stored in the database of CPIP

Had already actively discussed with clients about digital value-added services, but due to the limited availability of information, specific commercialization plan of information was not yet designed. With the sophistication of the legal environment regulating the usage of information resources, commercialization plan would be designed in time in accordance with the changing conditions of information resources.

Continue to introduce the existing e-Commerce platform to other cities in the PRC through the ASP modules and sales channel comprising sales agents across the country

The Group recently launched products of Integrated e-Commercial Application Module U in various markets through sales agents. The products help in the promotion of our e-Commerce business.

# Comparison between Business Objectives and Actual Business Progress

From 1st January, 2003 to 31st December, 2003

## *Business Objectives*

Continue to seek strategic partnerships with major foreign IT companies and major system integrators and traditional enterprises in the PRC

## *Research and Development*

To research and develop wireless certificate applications

To research and develop online legal environment and related supporting technology

Continue to research workflow technology application on wireless appliances

Continue to research intelligent appliances that is based on HFC network structure

## *Actual Progress*

The Group continued close cooperation with major foreign IT companies, major system integrators and Chinese traditional enterprises (the Group, China National Computer Software and Technology Service Corporation and other prestigious enterprises in the industry became the first batch of companies to officially enter into partnership with China-IBM Linux Solution Cooperation Centre).

Due to the limited calculating function of wireless portable appliances, the specific launching plan of the wireless CA services was not yet designed. With the extensive usage of 3G phones, launching plan would be designed in accordance with the prevailing market conditions.

The U products recently launched by the Group can link securely with the Capinfo Payment Platform and improve storage of the U machine solving the bottleneck problem of secure payment. The products were being promoted across the country.

Certain wireless mobile IP products were launched to be applied in Beijing Emergencies Aid Services System.

Copyright registration of the CAPINFO BroadCenter V1.0 Broadband Access Network Management System launched by the Group was completed.

## Comparison between Business Objectives and Actual Business Progress

### USE OF PROCEEDS

	<b>Approximate amount for intended use</b>	<b>Approximate amount actually used up to 31st December, 2003</b>
	RMB '000	RMB '000
The expansion and maintenance of the CPIP e-Government Technology Services	31,000	31,000
– research and implementation of platform	63,000	50,854
– research on GPS integrated application service system	37,000	7,806
– research on workflow system technology	16,000	3,756
– research on one stop office core technology and solutions	21,000	6,373
e-Commerce Technology Services		
– research and implementation of platform	31,000	31,000
– development of e-commerce security application system software	19,000	5,042
– research on CSCW system	16,000	8,542
Internet Technology Services		
– research on broadband multimedia access total solutions based on HFC technology	21,000	4,793
Marketing and brand building	27,000	20,075
Settle payment to supplier	5,000	5,000

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, 2003 stated above) included (i) the amount not being utilized as a result of the delay in the progress of certain business objectives, and (ii) saving in costs for achieving business objectives. The aforesaid unused proceeds were placed in PRC banks as deposits at 31st December, 2003 and would be expected to be used as general working capital of the Group.

# Directors, Supervisors and Senior Management

## Directors

### *Executive Directors*

Dr. CHEN Xinxiang (陳信祥博士), aged 61, 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 35, 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 50, 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 46, 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. FAN Dazhi (樊大志先生), aged 39, 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. In 2002, Mr. Fan received a master degree specializing in Finance from Beijing University. 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 42, 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 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 63, 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 degree. He has over 39 years of experience in broadcasting and television, and was granted several times the Award of Technology Advancement by the Ministry of Broadcasting and Telecommunication of the PRC (MBT). Mr. Pan has served successively as the director of the Research Department in Aerial Design under the Design Institute of MBT, the director of Shuang Qiao Equipment Manufacturing Plant of MBT and the head of Aerial Specialist Committee under the Science and Technology Committee of MBT. Mr. Pan has successively engaged in the construction of radio station projects in a number of countries including Albania, Vietnam and Zambia. Currently, he is the Chairman of Beijing Sino-Sky.

Ms. TAN Guo An (譚國安女士), aged 58, joined the Company in July 2003 as a non-executive Director and is currently the deputy general manager of China Monetary Electronization Corporation. She graduated from the Faculty of Wireless Radio in 1986 and had successively served as the associate director of the Research Department of Beijing Automation Technology, director of Department of Technology of the People's Bank of China and general manager of Zhong Yuan Monetary Data Network Company Limited. She has over 35 years of experience in management.



## Directors, Supervisors and Senior Management

Mr. YE Yong Dong (野永東先生), aged 48, joined the Group in July 2003 as a non-executive Director and is currently the deputy general manager of China Telecom System Integration Company Limited. He graduated from the Beijing Post and Telecommunications College (currently known as the Beijing Post and Telecommunications University) in 1988 and holds a master degree in engineering. Mr. Ye had successively served as the associate professor of the Department of Computer of the Beijing Post and Telecommunications University and the deputy chief engineer of China Telecom Data Communications Bureau. He has over 26 years of experience in implementation and management.

Mr. LU Dong Tao (盧東濤先生), aged 41, joined the Group in July 2003 as a non-executive Director and is currently the chairman and general manager of the Beijing Gehua Cable TV Network. He graduated from the Beijing Economics College (currently known as the Capital University and Business), with a degree in economy. Mr. Lu had worked in Discussion Office (理論處) of Promotion Department under Beijing City Committee of the CPC and successively served as the manager of Development Department of the Continental Marine Investment Co., Ltd and supervisor and director of the China Poly Group Corporation. He has many years of experience in corporate management and operation.

Mr. XU Zhe (徐哲先生), aged 33, joined the Group in July 2003 as a non-executive Director and is currently the manager of Capital Operation Division of BSAM. He graduated from the Beijing Economics College (currently known as the Capital University and Business) in 1993 with a degree in corporate management. Mr. Xu worked in Beijing International Trust and Investment Company and has over 9 years of experience in corporate operation and management.

Mr. BAI Li Ming (白利明先生), aged 30, joined the Group in July 2003 as a non-executive Director and is currently the project manager of Capital Operation Division of BSAM. He graduated from the Faculty of Technical Economics of Tsinghua University in 2000 with a master degree, and had 3 years of experience in management.

### *Independent non-executive Directors*

Mr. WONG Ying Ho, Kennedy (黃英豪先生), aged 41, 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 a member of the CPPCC National Committee, the vice chairman of the All-China Youth Federation, an attesting officer appointed by the Ministry of Justice of the PRC, chairman of China Champ Group, as well as a member of the Election Committee of Hong Kong.



## Directors, Supervisors and Senior Management

Mr. NG Kin Fai, Francis (伍健輝先生), aged 45, 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 which also jointly publishes in English an academic and global publication, Chinese Journal of Electronics with the Chinese Institute of Electronics.

### *Qualified Accountant and Company Secretary*

Mr. LO Wai Tat, Andrew (盧偉達先生), aged 31, 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

Ms. LIU Jian (劉健女士), aged 52, 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 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. ZHANG Zhenlong (張振龍先生), aged 28, 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.

Mr. CHENG Huajun (程華軍先生), aged 31, 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.



## Directors, Supervisors and Senior Management

### Senior Management

Mr. LU Shouqun (陸首群先生), aged 67, 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 Jitong Company and Manager of The Office for the Promotion Beijing Electronic Industry. Mr. Lu has over 40 years of management and administration experience.

Mr. SHAO Jianping (邵建平先生), aged 51, 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 of management and administration experience.

Mr. LI Nanfang (李南方先生), aged 38, 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 59, 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., and Director, Deputy General Manager of China Great Wall Computer (Shenzhen) 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.



## Directors, Supervisors and Senior Management

Mr. SUN Zixi (孫子系先生), aged 52, 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.

Mr. ZHUANG Zixin (莊梓新先生), aged 68, 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 48, joined the Company in March 2000 and he currently is the Operation Director, Deputy General Manager of the Company's Social Security and Citizen Card Division (equivalent to the General Manager of Business Department). 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 29, 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, 2003.

### 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 subsidiaries are set out in note 11 to the financial statements.

### Results

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 37 of the annual report.

The directors do not recommend the payment of a dividend.

### Share Capital

Details of movements in the 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 RMB78 million in the acquisition 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 10 to the financial statements.

### 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. Fan Dazhi	
Mr. Qi Qigong	
Mr. Pan Jiaren	
Ms. Tan Guoan	(appointed on 1st July, 2003)
Mr. Ye Yongdong	(appointed on 1st July, 2003)
Mr. Lu Dongtao	(appointed on 1st July, 2003)
Mr. Xu Zhe	(appointed on 1st July, 2003)
Mr. Bai Liming	(appointed on 1st July, 2003)
Mr. Gao Fengqian	(retired on 1st July, 2003)
Mr. Li Ye	(retired on 1st July, 2003)
Mr. Ou Qun	(retired on 1st July, 2003)
Mr. Zuo Feng	(retired on 1st July, 2003)
Ms. Liang Mei	(retired on 1st July, 2003)

## Directors' Report



### *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.

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, Messrs. Gao Fengqian, Li Ye, Ou Qun, Zuo Feng and Liang Mei retired, and the remaining directors and supervisors retired and offered themselves for re-election.

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 Shares, Underlying Shares and Debentures

As at 31st December, 2003, the interests of the directors and supervisors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions

#### Share options

<b>Name of directors</b>	<b>Number of options held and underlying shares</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. Fan Dazhi	1,244,650
Mr. Qi Qigong	1,244,650
Mr. Pan Jiaren	1,244,650
Mr. Wong Ying Ho, Kennedy	1,241,550
Mr. Ng Kin Fai, Francis	1,241,550
	<hr/>
<b>Name of supervisors</b>	<b>11,394,050</b>
	<hr/> <hr/>
Ms. Liu Jian	1,244,650
Mr. Zhang Zhenlong	1,264,800
Mr. Cheng Huajun	1,286,500
	<hr/>
	<b>3,795,950</b>
	<hr/> <hr/>

Other than disclosed above, none of the directors, supervisors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

## Directors' Report

### Share Options

Particulars of the Company's share option scheme are set out in note 21 to the financial statements.

A summary of these share options granted is as follows:

	Outstanding at beginning of year	Exercised during the year	Lapsed during the year	Reallocation during the year	Outstanding at end of year
Directors					
Dr. Chen Xinxiang	1,309,750	-	-	-	1,309,750
Dr. Wang Xu	1,297,350	-	-	-	1,297,350
Ms. Zhang Yan	1,308,200	-	-	-	1,308,200
Dr. Wu Bo	1,261,700	-	-	-	1,261,700
Mr. Gao Fenqian	1,283,400	-	(1,283,400)	-	-
Mr. Li Ye	1,309,750	-	(1,309,750)	-	-
Mr. Zuo Feng	1,309,750	-	(1,309,750)	-	-
Mr. Fan Dazhi	1,244,650	-	-	-	1,244,650
Mr. Qi Qigong	1,244,650	-	-	-	1,244,650
Mr. Pan Jiaren	1,244,650	-	-	-	1,244,650
Ms. Liang Mei	1,244,650	-	(1,244,650)	-	-
Mr. Wong Ying Ho, Kennedy	1,241,550	-	-	-	1,241,550
Mr. Ng Kin Fai, Francis	1,241,550	-	-	-	1,241,550
	16,541,600	-	(5,147,550)	-	11,394,050
Supervisor					
Ms. Liu Jian	1,244,650	-	-	-	1,244,650
Mr. Zhang Zhenlong	1,264,800	-	-	-	1,264,800
Mr. Cheng Huajun	1,286,500	-	-	-	1,286,500
	3,795,950	-	-	-	3,795,950
Directors	16,541,600	-	(5,147,550)	-	11,394,050
Supervisors	3,795,950	-	-	-	3,795,950
Senior management	4,847,780	-	(774,690)	1,534,500	5,607,590
Senior advisors	3,929,250	-	-	-	3,929,250
Advisors	4,309,930	-	-	773,760	5,083,690
Other employees	35,500,890	-	(8,512,135)	(760,740)	26,228,015
Employees of Capnet Company Limited (note)	1,547,520	-	-	(1,547,520)	-
Total	70,472,920	-	(14,434,375)	-	56,038,545

Note: Capnet Company Limited is a subsidiary of Beijing State-owned Assets Management Corporation Limited ("BSAM").

Under the Company's pre-IPO share option plan, share options (the "Pre-IPO Options") had been granted in prior years 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 restrictions imposed by the relevant PRC laws and regulations. These options were to recognise the past and present contributions of the grantee to the Group.

### Arrangements to Purchase Shares or Debentures

Other than the option holdings disclosed above, at no time during the year was the Company, the holding company, or any of its fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Substantial Shareholders

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholder had notified the Company of relevant interests in the issued share capital of the Company.

#### *Long positions*

Ordinary shares of HK\$0.10 each of the Company

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued capital of the Company</b>
BSAM	Beneficial owner	1,783,631,919	61.55%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31st December, 2003.



## Directors' Report



### Connected Transactions

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

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

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) within the relevant cap amounts as agreed by 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 represented approximately 68% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 24% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 46% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 21% 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 provision for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### Corporate Governance

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.

The audit committee comprises two independent non-executive directors, Messrs. Wong Ying Ho, Kennedy and 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 the internal control system of the Group.

### Competing Interest

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

### Sponsor's Interests

Pursuant to the agreement dated 17th December, 2001, Core Pacific-Yamaichi Capital Limited had been retained to act as the Company's sponsor, in return for a fee, for the period up to 31st December, 2003 and the agreement was expired on 31st December, 2003 without any renewal. None of the Company's sponsor, its directors, employees or associates (as referred to in Note 3 to the 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, 2003.

### Post Balance Sheet Event

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

### Auditors

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

On behalf of the Board

**Dr. CHEN Xinxiang**

*Chairman*

Beijing, the Peoples' Republic of China,  
19th March, 2004

## Supervisors' Report



To the shareholders,

During this reporting period, all members of the Supervisory Committee complied with the Company Law of the People's Republic of China and related regulations as well as the Articles of Association of the Company, and faithfully assumed their responsibilities to protect the benefits of the Company and the interests of the shareholders.

In 2003, despite the unexpected impact of SARS and global unfavorable market environment in the IT industry, the Company faced up to the adversity and achieved steady development in business with its speciality as well as reacting adjustments and policies made resolutely.

During the period, the Supervisory Committee was able to confirm the accurate, detailed and timely preparation of the Company's financial statements and accounts by attending board meetings to participate in the decision making of the Company's management and reviewing regularly the financial statements and accounts. To the knowledge of the Supervisory Committee, no improper disclosure has been identified in the financial statements and accounts. The Supervisory Committee believes that all the directors and other officers assumed their responsibilities on the principles of faithfulness and integrity and considered the Company's best interests as the foremost importance. Throughout the period, to the knowledge of the Supervisory Committee, all the directors and other officers complied with the related rules governing the listing of securities on the Stock Exchange of Hong Kong Limited and related regulations of China Securities Regulatory Commission, and did not violate any related laws, regulations and the Articles and Association of the Company.

The Supervisory Committee has carefully examined the financial statements of the Company to be submitted. The Supervisors believe that during the reporting period, the operating results of the Company adequately reflect its state of affairs; all expenses and costs incurred were reasonable; the plan for distribution of profits accommodated the shareholders' interests and the long-term benefits of the Company; and the statutory surplus reserve and welfare fund provided from net profits for the year were made in compliance with the laws, regulations and the Articles and Association of the Company.

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

By order of the Supervisory Committee

**Ms. LIU Jian**

*Chairman of the Supervisory Committee*

Beijing, the People's Republic of China

19th March 2004

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 37 to 74 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

**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, 2003 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, 19th March, 2004

# Consolidated Income Statement

For the year ended 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	4	<b>279,565</b>	237,474
Cost of sales		<b>(209,964)</b>	(174,470)
Gross profit		<b>69,601</b>	63,004
Other operating income		<b>12,348</b>	16,135
Research and development costs		<b>(17,015)</b>	(19,408)
Marketing and promotional expenses		<b>(15,481)</b>	(9,141)
Administrative expenses		<b>(37,606)</b>	(36,626)
Profit from operations	5	<b>11,847</b>	13,964
Interest on bank borrowings wholly repayable within five years		<b>(254)</b>	(445)
Share of losses of associates		<b>(2,992)</b>	(607)
Share of loss of a jointly controlled entity		<b>(552)</b>	–
Profit before tax		<b>8,049</b>	12,912
Income tax expense	8	<b>(2,048)</b>	(2,410)
Profit before minority interests		<b>6,001</b>	10,502
Minority interests		<b>(52)</b>	(483)
Net profit for the year		<b>5,949</b>	10,019
Earnings per share – Basic	9	<b>0.2 cents</b>	0.3 cents

# Consolidated Balance Sheet

At 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>222,847</b>	229,458
Interests in associates	12	<b>21,171</b>	8,393
Interest in a jointly controlled entity	13	<b>3,448</b>	–
Investments in securities	14	<b>16,350</b>	15,350
Deposits made on acquisition of property, plant and equipment		<b>1,152</b>	1,015
		<b>264,968</b>	254,216
<b>Current assets</b>			
Inventories	15	<b>16,337</b>	28,415
Amounts due from customers for contract work	16	<b>30,001</b>	1,352
Trade and other receivables	17	<b>88,966</b>	77,913
Amount due from an associate		<b>2,137</b>	735
Pledged bank deposits		–	106,110
Bank balances and cash		<b>259,572</b>	235,112
		<b>397,013</b>	449,637
<b>Current liabilities</b>			
Trade and other payables	18	<b>60,726</b>	50,856
Customers' deposits for contract work		<b>41,079</b>	101,394
Taxation payable		<b>2,077</b>	1,505
Current portion of other loans	19	<b>2,000</b>	–
		<b>105,882</b>	153,755
<b>Net current assets</b>			
		<b>291,131</b>	295,882
		<b>556,099</b>	550,098
<b>Capital and reserves</b>			
Share capital	20	<b>289,809</b>	289,809
Reserves		<b>255,746</b>	249,797
		<b>545,555</b>	539,606
<b>Minority interests</b>			
		<b>2,544</b>	492
<b>Non-current liabilities</b>			
Other loan	19	<b>8,000</b>	10,000
		<b>556,099</b>	550,098

The financial statements on pages 37 to 74 were approved and authorised for issue by the Board of Directors on 19th March, 2004 and are signed on its behalf by:

**Dr. CHEN Xinxiang**  
Chairman

**Ms. ZHANG Yan**  
Vice Chief Executive

# Balance Sheet

At 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	218,630	228,371
Investments in subsidiaries	11	22,500	4,500
Interests in associates	12	24,770	9,000
Interest in a jointly controlled entity	13	4,000	–
Investments in securities	14	15,350	15,350
Deposits made on acquisition of property, plant and equipment		1,152	1,015
		<b>286,402</b>	258,236
<b>Current assets</b>			
Inventories	15	15,600	28,353
Amounts due from customers for contract work	16	29,102	1,167
Trade and other receivables		85,652	77,763
Amounts due from subsidiaries		3,251	502
Amount due from an associate		2,137	735
Pledged bank deposits		–	106,110
Bank balances and cash		236,760	230,127
		<b>372,502</b>	444,757
<b>Current liabilities</b>			
Trade and other payables		56,365	49,811
Customers' deposits for contract work		41,079	101,394
Taxation payable		2,077	1,505
Current portion of other loan	19	2,000	–
		<b>101,521</b>	152,710
<b>Net current assets</b>			
		<b>270,981</b>	292,047
		<b>557,383</b>	550,283
<b>Capital and reserves</b>			
Share capital	20	289,809	289,809
Reserves	22	259,574	250,474
		<b>549,383</b>	540,283
<b>Non-current liabilities</b>			
Other loan	19	8,000	10,000
		<b>557,383</b>	540,283

**Dr. CHEN Xinxiang**  
Chairman

**Ms. ZHANG Yan**  
Vice Chief Executive



# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	<b>Share capital</b>	<b>Share premium</b>	<b>Statutory surplus reserve</b>	<b>Statutory welfare fund</b>	<b>Accumulated (losses) profits</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2002	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
Transfer	-	-	550	275	(825)	-
Net profit for the year	-	-	-	-	5,949	5,949
At 31st December, 2003	289,809	254,079	550	275	842	545,555

# Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 RMB'000	2002 RMB'000
Operating activities		
Profit before tax	8,049	12,912
Adjustments for:		
Interest income	(4,791)	(7,683)
Interest expenses	254	445
Share of losses of associates	2,992	607
Share of loss of a jointly controlled entity	552	–
Depreciation	55,605	35,557
Loss on disposal of property, plant and equipment	82	302
Allowance for doubtful debts	2,125	1,905
	<hr/>	<hr/>
Operating cash flows before movements in working capital	64,868	44,045
Decrease (increase) in inventories	12,078	(23,041)
(Increase) decrease in amounts due from customers for contract work	(264)	27,908
Increase in trade and other receivables	(13,178)	(13,647)
Increase in trade and other payables	9,370	9,723
Decrease in customers' deposits for contract work	(60,315)	(75,449)
	<hr/>	<hr/>
Cash generated (used in) from operations	12,559	(30,461)
Mainland China income tax paid	(1,476)	(96)
Mainland China income tax refunded	–	541
	<hr/>	<hr/>
Net cash from (used in) operating activities	11,083	(30,016)
Investing activities		
Interest received	4,791	7,683
Purchase of property, plant and equipment	(77,764)	(84,542)
Proceeds from disposal of property, plant and equipment	303	2,860
Acquisition of associates	(15,770)	(9,000)
Acquisition of a jointly controlled entity	(4,000)	–
Acquisition of investments in securities	(500)	–
Proceeds from disposal of investments in securities	–	18,000
Deposits paid on acquisition of property, plant and equipment	(137)	(1,015)
Increase in amount due from an associate	(1,402)	(735)
Decrease (increase) in pledged bank deposits	106,110	(106,110)
(Increase) decrease in bank deposits not within three months of maturity	(51,048)	12,589
	<hr/>	<hr/>
Net cash used in investing activities	(39,417)	(160,270)

# Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Financing activities		
Interest paid	<b>(254)</b>	(445)
Capital contributions from minority owners of subsidiaries	<b>2,000</b>	–
Proceeds from issue of shares	–	14,811
Expenses incurred in connection with the issue of shares	–	(1,054)
Borrowings raised	–	10,000
Repayment of borrowings	–	(5,500)
Payments to minority owner of a subsidiary on dissolution	–	(4,051)
Net proceeds paid to the State Social Security Fund Council	–	(31,074)
	<hr/>	<hr/>
Net cash from (used in) financing activities	<b>1,746</b>	(17,313)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(26,588)</b>	(207,599)
Cash and cash equivalents at 1st January	<b>235,006</b>	442,605
	<hr/>	<hr/>
Cash and cash equivalents at 31st December	<b>208,418</b>	235,006
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>259,572</b>	235,112
Less: Bank deposits not within three months of maturity	<b>(51,154)</b>	(106)
	<hr/>	<hr/>
	<b>208,418</b>	235,006
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 1. General

The Company is a listed public 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. Changes in accounting policies

In the current year, the Group has adopted the following Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (SSAPs) and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
SSAP 35	Government Grant

### *Income taxes*

In the current year, the Group has adopted SSAP 12 (Revised) *Income Taxes*. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current and prior accounting years.

### *Government grants*

In the current year, the Group has adopted SSAP 35 *Government Grants*. In accordance with SSAP 35, government grants are recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the requirements of SSAP 35 retrospectively, but the adoption has not had any material effect on the results for the current or prior accounting years since government grants towards costs received in prior years in respect of developing network systems have already been recognised as income.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 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.

### *Investments in subsidiaries*

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

### *Interests in associates*

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been written off or amortised, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. Significant accounting policies (continued)

### Joint ventures

#### *Jointly controlled entities*

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### *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 and e-Commerce technology services.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 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 has been established.

### *Government grants*

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, 2003

## 3. Significant accounting policies (continued)

### *Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its useful economic life.

Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### *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. 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.

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 1/3%
Network equipment	20% or over the remaining period of the relevant contract work
Office equipment, furniture and fixtures	20%
Motor vehicles	20%



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. Significant accounting policies (continued)

### *Borrowing costs*

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

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

### *Inventories*

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

### *Installation contracts*

When the outcome of a contract for the installation of network systems can be estimated reliably, contract costs are charged to the income statement 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.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. Significant accounting policies (continued)

### *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.

### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. Significant accounting policies (continued)

### *Taxation (continued)*

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### *Foreign currencies*

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

### *Operating leases*

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



# Notes to the Financial Statements

*For the year ended 31st December, 2003*

## **4. Business and geographical segments**

### *Business segments*

For management purposes, the Group's operations are organised into two operating divisions namely e-Government technology services and e-Commerce technology services. These divisions are the basis on which the Group reports its primary segment information.

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 and non-government related entities.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 4. Business and geographical segments (continued)

### *Business segments – continued*

Business segments for the year are as follows:

	2003		2002	
	Turnover RMB'000	Results RMB'000	Turnover RMB'000	Results RMB'000
e-Government technology services	212,540	44,689	159,860	43,033
e-Commerce technology services	67,025	(8,640)	77,614	(8,694)
	<b>279,565</b>	<b>36,049</b>	<b>237,474</b>	<b>34,339</b>
Other operating income		12,348		16,135
Central administrative expenses		(36,550)		(36,510)
Profit from operations		11,847		13,964
Interest on bank borrowings wholly repayable within five years		(254)		(445)
Loss from interests in associates engaged in other businesses		(2,992)		(607)
Loss from interest in a jointly controlled entity engaged in other business		(552)		–
Profit before tax		8,049		12,912
Taxation		(2,048)		(2,410)
Profit before minority interests		6,001		10,502
Minority interests		(52)		(483)
Net profit for the year		<b>5,949</b>		<b>10,019</b>

As the assets of the Group are substantially used on a common basis by 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.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 5. Profit from operations

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration (note 6)	1,265	1,150
Other staff costs	41,782	24,056
Other staff's retirement benefits scheme contributions	5,332	3,793
	<b>48,379</b>	28,999
Less: Staff costs included in research and development costs	<b>(6,585)</b>	(6,305)
Staff costs capitalised in contract work	<b>(10,044)</b>	(9,559)
	<b>31,750</b>	13,135
Depreciation	<b>83,990</b>	63,301
Less: Depreciation included in research and development costs	<b>(2,263)</b>	(4,953)
Depreciation capitalised in contract work	<b>(28,385)</b>	(27,744)
	<b>53,342</b>	30,604
Operating lease rentals in respect of		
– cable network	<b>16,328</b>	13,475
– land and buildings	<b>10,855</b>	12,067
	<b>27,183</b>	25,542
Less: Operating lease rentals included in research and development costs	<b>(2,220)</b>	(3,939)
Operating lease rentals capitalised in contract work	<b>(10,355)</b>	(1,753)
	<b>14,608</b>	19,850
Auditors' remuneration	<b>711</b>	658
Cost of goods sold	<b>68,547</b>	76,649
Loss on disposal of property, plant and equipment	<b>82</b>	302
and after crediting:		
Government grants	<b>7,616</b>	7,950
Interest income from		
– bank	<b>4,791</b>	2,887
– investment in held-to-maturity debt securities	–	4,796

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 6. Directors' and supervisors' emoluments

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Fees for		
– independent non-executive directors	<b>213</b>	212
– executive directors, other non-executive directors and supervisors	–	–
Other emoluments for non-executive directors	–	–
	<b>213</b>	212
Other emoluments for executive directors		
– basic salaries and allowances	<b>870</b>	733
– bonus	–	–
– retirement benefits scheme contributions	<b>50</b>	49
	<b>920</b>	782
Other emoluments for supervisors		
– basic salaries and allowances	<b>120</b>	144
– bonus	–	–
– retirement benefits scheme contributions	<b>12</b>	12
	<b>132</b>	156
	<b>1,265</b>	1,150

For the year ended 31st December, 2003, basic salaries and allowances paid to the four executive directors were RMB251,000, RMB198,000, RMB218,000 and RMB203,000 respectively; while retirement benefits scheme contributions in respect of the four executive directors were RMB12,000, RMB12,000, RMB13,000 and RMB13,000 respectively. In addition, directors' fees paid to each of the two independent non-executive directors were RMB106,570.

# Notes to the Financial Statements

For the year ended 31st December, 2003

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

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 were RMB106,000.

During the year, four executive directors have waived emoluments of RMB237,000, RMB270,000, RMB218,000 and RMB235,000 respectively and a supervisor has waived emoluments of RMB68,000.

During the year ended 31st December, 2002, 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.

## 7. Employees' emoluments

The aggregate emoluments of the five highest paid individuals included three (2002: two) executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining two (2002: three) highest paid individuals are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Basic salaries and allowances	<b>631</b>	952
Retirement benefits scheme contributions	<b>12</b>	12
	<b>643</b>	964

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.



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 8. Income tax expense

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Current tax	<b>2,048</b>	2,410

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 following three years commencing 2001. The charge for the year represents PRC income tax calculated at the rate of 7.5% (2002: 7.5%) pursuant to the relevant rules and regulations in the PRC.

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2003</b>		2002	
	<b>RMB'000</b>	%	RMB'000	%
Profit before tax	<b>8,049</b>		12,912	
Tax at domestic income tax rate of 15% (2002: 15%)	<b>1,208</b>	<b>15.0</b>	1,936	15.0
Income tax on concessionary rate	<b>(604)</b>	<b>(7.5)</b>	(968)	(7.5)
Tax effect of net expenses that are not deductible in determining taxable profit	<b>1,178</b>	<b>14.6</b>	1,397	10.8
Tax effect of tax losses of associates and a jointly controlled entity not recognised	<b>266</b>	<b>3.3</b>	45	0.4
Tax expense and effective tax rate for the year	<b>2,048</b>	<b>25.4</b>	2,410	18.7

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 9. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the year of RMB5,949,000 (2002: RMB10,019,000) and 2,898,086,091 (2002: weighted average number of 2,896,970,275) shares in issue during the year.

No diluted earnings per share has been presented in 2003 and 2002 because the exercise price of the Company's options was higher than the average market price of the Company's shares for both years.

## 10. Property, plant and equipment

	Computer equipment	Leasehold improvements	Network equipment	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group							
Cost							
At 1st January, 2003	67,313	14,214	252,838	2,028	-	2,602	338,995
Additions	13,252	129	38,414	1,632	327	24,010	77,764
Disposals	(754)	(3,588)	(115)	(3)	-	-	(4,460)
Transfers	-	6,624	19,939	20	-	(26,583)	-
At 31st December, 2003	79,811	17,379	311,076	3,677	327	29	412,299
Depreciation							
At 1st January, 2003	28,129	5,702	75,279	427	-	-	109,537
Provided for the year	24,447	2,235	56,876	417	15	-	83,990
Eliminated on disposals	(435)	(3,588)	(49)	(3)	-	-	(4,075)
At 31st December, 2003	52,141	4,349	132,106	841	15	-	189,452
Net book values							
At 31st December, 2003	27,670	13,030	178,970	2,836	312	29	222,847
At 31st December, 2002	39,184	8,512	177,559	1,601	-	2,602	229,458

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 10. Property, plant and equipment (continued)

	Computer equipment	Leasehold improvements	Network equipment	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Company							
Cost							
At 1st January, 2003	66,779	14,214	252,026	2,028	-	2,602	337,649
Additions	12,819	15	38,130	1,035	-	24,010	76,009
Disposals	(754)	(3,588)	(115)	(3)	-	-	(4,460)
Transfer to subsidiary	(1,774)	-	(2,261)	(9)	-	-	(4,044)
Transfers	-	6,624	19,939	20	-	(26,583)	-
At 31st December, 2003	77,070	17,265	307,719	3,071	-	29	405,154
Depreciation							
At 1st January, 2003	27,870	5,702	75,279	427	-	-	109,278
Provided for the year	24,566	2,227	56,458	412	-	-	83,663
Transfer to subsidiary	(1,034)	-	(1,304)	(4)	-	-	(2,342)
Eliminated on disposals	(435)	(3,588)	(49)	(3)	-	-	(4,075)
At 31st December, 2003	50,967	4,341	130,384	832	-	-	186,524
Net book values							
At 31st December, 2003	26,103	12,924	177,335	2,239	-	29	218,630
At 31st December, 2002	38,909	8,512	176,747	1,601	-	2,602	228,371

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 11. Investments in subsidiaries

						The Company	
						2003	2002
						RMB'000	RMB'000
Unlisted capital contributions, at cost						<b>22,500</b>	4,500
						Proportion of nominal	
						value of registered	
						capital held directly	
						by the Company	
Name of subsidiary	Form of business structure	Place of registration and operation	Nominal value of registered capital	Proportion of nominal value of registered capital held directly by the Company		Principal activities	
北京數字證書認證中心有限公司 (Beijing Certificate Authority Center Company Limited)	Domestic owned enterprise	PRC	RMB5,000,000	90%		Provision of services related to digital certificates	
重慶宏信軟件有限責任公司 (Chongqing Hongxin Company Limited)	Domestic owned enterprise	PRC	RMB20,000,000	90%		Software development and related businesses	
Capinfo (HongKong) Company Limited	Company Limited	Hong Kong	HK\$2	100%		Investment holding	

None of the subsidiaries had issued any debt securities at the end of year.

## 12. Interests in associates

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted capital contributions, at cost	–	–	<b>24,770</b>	9,000
Share of net assets	<b>19,101</b>	8,393	–	–
Goodwill of associates	<b>2,070</b>	–	–	–
	<b>21,171</b>	8,393	<b>24,770</b>	9,000

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 12. Interests in associates (continued)

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Movement of premium on acquisition is analysed as follows:		
Cost		
On acquisition of associate and at 31st December	<b>2,070</b>	–
Amortisation		
Provided for the year and at 31st December	–	–
Carrying amount at 31st December	<b>2,070</b>	–

The amortisation period adopted for goodwill is 20 years. No amortisation on goodwill has been provided for the current year as that associate was acquired at a date close to the balance date.

Details of the Company's associates, which are established and operating in the PRC, at 31st December, 2003 are as follows:

<b>Name of associate</b>	<b>Proportion of nominal value of registered capital held directly by the Company</b>	<b>Principal activities</b>
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 (Touch Beijing IT Development Co., Ltd.)	40%	Provision of information application services and related businesses
北京共創開源軟件有限公司 (Beijing Co-Create Open Source Software Co., Ltd.)	30.81%	Development, Sales and Management consultation of operation systems and related businesses

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 13. Investment in a jointly controlled entity

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted capital contributions				
at cost	–	–	4,000	–
Share of net assets	3,448	–	–	–
	<b>3,448</b>	–	<b>4,000</b>	–

Details of the Company's jointly controlled entity, which is established and operating in the PRC, at 31st December, 2003 are as follow:

Name of entity	Proportion of nominal value of registered capital held directly by the Company	Principal activities
北京中佳訊信息技術有限公司 (China BPS Information Technology Co., Ltd.)	40%	Construction operation and development of emergency aid and related businesses system

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 14. Investments in securities

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted other investments	<b>16,350</b>	15,350	<b>15,350</b>	15,350

Details of other investments, at 31st December, 2003 are as follows:

Name of investee	Proportion of nominal value of registered capital held by the Company	Principal activities
東莞市開普互聯信息有限公司 (前稱東莞市互聯信息有限公司) UCAP Technologies Ltd. (formerly known as Dongguan Infolink Technology) Co., Ltd)	5%	Development of computer software, computer system integration and technical consultancy
北京中關村信息工程股份有限公司 (Beijing Zhongguancun Information Engineering Co., Ltd.)	3%	Development of digitalisation of Zhongguancun area
北京首信新銳科技發展有限公司 (Health Information Technology Beijing Co., Ltd)	10%	Development of informatization application business in medical and health sectors and related businesses
Astoria Innovations Ltd.	5%	Provision of labour force informalization market service and related businesses

Except Astoria Innovations Ltd. which is incorporated in the British Virgin Islands, all other investors are established in the PRC and are held directly by the Company.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 15. Inventories

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
At cost				
Raw materials	<b>2,176</b>	1,363	<b>1,952</b>	1,301
Equipment held for sales	<b>14,161</b>	27,052	<b>13,648</b>	27,052
	<b>16,337</b>	28,415	<b>15,600</b>	28,353

## 16. Amounts due from customers for contract work

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Contract costs incurred to date	<b>222,571</b>	151,869	<b>221,672</b>	151,684
Recognised profits less recognised losses	<b>58,031</b>	82,388	<b>58,031</b>	82,388
	<b>280,602</b>	234,257	<b>279,703</b>	234,072
Less: Progress billings	<b>(250,601)</b>	(232,905)	<b>(250,601)</b>	(232,905)
	<b>30,001</b>	1,352	<b>29,102</b>	1,167



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 17. Trade and other receivables

	The Group	
	2002	2001
	RMB'000	RMB'000
Trade receivables from		
– a fellow subsidiary	1,844	997
– others	52,517	47,016
	<hr/>	<hr/>
	54,361	48,013
Other receivables	34,605	29,900
	<hr/>	<hr/>
	88,966	77,913
	<hr/> <hr/>	<hr/> <hr/>

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:

Age	The Group	
	2003	2002
	RMB'000	RMB'000
0 to 60 days	19,615	32,053
60 to 90 days	633	2,179
91 to 180 days	1,925	306
Over 180 days	32,188	13,475
	<hr/>	<hr/>
	54,361	48,013
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 18. Trade and other payables

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Trade payables	<b>21,132</b>	10,334
Other payables	<b>30,838</b>	32,601
Other customers' deposits	<b>8,756</b>	7,921
	<b>60,726</b>	50,856

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

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Age		
0 to 60 days	<b>13,564</b>	8,531
61 to 90 days	<b>1,999</b>	28
91 to 180 days	<b>14</b>	19
Over 180 days	<b>5,555</b>	1,756
	<b>21,132</b>	10,334

## 19. Other loans

	<b>The Group and The Company</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
The other loans are repayable as follows:		
Within one year	<b>2,000</b>	–
More than one year, but not exceeding two years	<b>2,000</b>	2,000
More than two years, but not exceeding five years	<b>6,000</b>	8,000
	<b>10,000</b>	10,000
Less: Amount due within one year shown under current liabilities	<b>2,000</b>	–
Amount due after one year	<b>8,000</b>	10,000

The loan is unsecured and bears interest at 2.25% per annum.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 20. Share capital

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Balance of share capital of RMB0.10 each at 1st January, 2002	2,126,497,182	742,498,000	286,900
Exercise of over-allocation options	(2,909,091)	32,000,000	2,909
	<hr/>		
Balance of share capital of RMB0.10 each at 31st December, 2002 and 2003	2,123,588,091	774,498,000	289,809
	<hr/> <hr/>		

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).

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 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.

Movements during the year of share options are as follows:

	<b>Number of share options</b>
At 1st January, 2002 and 31st December, 2002	70,472,920
Lapsed during the year	(14,434,375)
	<hr/>
At 31st December, 2003	<u>56,038,545</u>

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

Details of the share options held by the directors, other key management and other parties are as follows:

	<b>Outstanding at 1st January, 2002 and 31st December, 2002</b>	<b>Lapsed during the year</b>	<b>Reallocation during the year</b>	<b>Outstanding at 31st December, 2003</b>
Directors	16,541,600	(5,147,550)	–	11,394,050
Supervisors	3,795,950	–	–	3,795,950
Senior management	4,847,780	(774,690)	1,534,500	5,607,590
Senior advisors	3,929,250	–	–	3,929,250
Advisors	4,309,930	–	773,760	5,083,690
Other employees	35,500,890	(8,512,135)	(760,740)	26,228,015
Employees of Capnet				
Company Limited (note)	1,547,520	–	(1,547,520)	–
	<hr/>			
Total	70,472,920	(14,434,375)	–	<u>56,038,545</u>

Note: Capnet Company Limited ("Capnet") is a subsidiary of Beijing State-owned Assets Management Corporation Limited ("BSAM")

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 21. Share options (continued)

### *(b) Over-allocation Options*

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

During the year ended 31st December, 2002, certain Over-allocation Options were exercised to acquire 2,909,091 domestic shares from the Vendor and to request the Company to allot 29,090,909 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.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 21. Share options (continued)

### (c) Share Option Scheme (continued)

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.

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

## 22. Reserves

	<b>Statutory Share premium</b>	<b>Statutory surplus reserve</b>	<b>Statutory welfare fund</b>	<b>Accumulated profit (losses)</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE COMPANY					
At 1st January, 2002	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
Transfer	–	550	275	(825)	–
Net profit for the year	–	–	–	9,100	9,100
At 31st December, 2003	254,079	550	275	4,670	259,574

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 22. Reserves (continued)

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.

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 Financial Reporting Standards or overseas accounting standards of the place in which the Company's shares are listed. Accordingly, appropriation of RMB550,000 (2002: Nil) and RMB275,000 (2002: Nil) to the statutory surplus reserve and statutory welfare fund has been made respectively.

At the balance sheet date, the Company had reserves of RMB4,670,000 (2002: Nil) available for distribution to shareholders.

The accumulate profit of the Group include loss of RMB3,599,000 (2002: loss of RMB607,000) and loss of RMB552,000 (2002: Nil) retained by the Group's associates and jointly controlled entity, respectively.

## 23. Dissolution of a subsidiary

During the year ended December 31, 2002, 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, 2003

## 24. 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	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Land and buildings				
Within one year	<b>11,155</b>	7,092	<b>9,565</b>	7,013
In the second to fifth year inclusive	<b>13,651</b>	11,675	<b>10,603</b>	11,511
After five years	–	260	–	260
	<b>24,806</b>	19,027	<b>20,168</b>	18,784
Cable network				
Within one year	<b>3,162</b>	240	<b>3,162</b>	240
In the second to fifth year inclusive	<b>80</b>	320	<b>80</b>	320
	<b>3,242</b>	560	<b>3,242</b>	560

Leases are negotiated, and rentals are fixed, for an average term of 2 to 5 years.

## 25. Capital commitments

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of:				
– property, plant and equipment	<b>1,144</b>	20,641	<b>1,144</b>	19,471
– investment (note 27(e))	<b>56,000</b>	–	<b>56,000</b>	–
	<b>57,144</b>	20,641	<b>57,144</b>	19,471



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 26. Retirement benefits scheme

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

## 27. Connected transactions

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

Name of connected company	Nature of transactions	The Group	
		2003 RMB'000	2002 RMB'000
CNC Beijing Communication Corporation ("CNC Beijing")	Fixed line services paid		
	– rental fee	–	240
	Dedicated circuit leasing services paid	7,823	6,559
	Information port connection services paid	6,084	5,844
	Telephone related services paid	444	1,380
Capnet	Comprehensive services income received	6,290	3,466
Beijing IC Design Park Co., Ltd.	Rental paid for office premises	2,986	–

- (a) 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) to lay certain fiber optics cable; (ii) to provide to the customers of the Group access to CNC Beijing's frame relay network; (iii) to provide Capital Public Information Platform ("CPIP") connection with CNC Beijing's frame relay network; and (iv) to provide 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, 2003*

## 27. Connected transactions (continued)

- (b) In November 2000, the Group entered into an agreement with 北京市通信公司營業局 (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. On 20th June, 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.
- (c) 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 one year commencing from 4th April, 2001. On 20th June, 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.
- (d) 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. On 20th October, 2003, the Company and Capnet entered into a renewal agreement for further extending the term of the agreement to expire on 31st December, 2006. The renewal agreement was approved by the Company's shareholders in an extraordinary general meeting held on 22nd December, 2003.
- (e) On 23rd January, 2003, the Company entered into an agreement with CNC Beijing to acquire CNC Beijing's 28% interests in Beijing Zhengtong Network Communication Co., Ltd., which is established in the PRC and engaged in 800M digital trunking of mobile phone, phonetic data and image business, for a consideration of RMB56,000,000. The agreement was approved by the Company's shareholders in an extraordinary general meeting held on 28th March, 2003 (note 25).
- (f) On 23rd January, 2003, the Company entered into an agreement with Beijing IC Design Park Co., Ltd., a subsidiary of BSAM, to rent office premises for annual rental of RMB4,100,000 for each of the three years ended 31st December, 2005. The agreement was approved by the Company's shareholders in an extraordinary general meeting held on 28th March, 2003.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 27. Connected transactions (continued)

- (g) On 5 September, 2003, the Company entered into an agreement with BSAM under which the Company and BSAM further contributed RMB12,000,000 and RMB18,000,000 respectively, in proportion to their respective existing equity interest percentage, to Touch Beijing IT Development Co., Ltd.

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

## 28. Post balance sheet event

On 16th January, 2004, the Company entered into an equity transfer agreement with BSAM under which the Company transferred RMB2,500,000 registered capital of Beijing Certificate Authority Center Company Limited ("BJCA") to BSAM at a consideration of RMB2,750,000. On the same date, the Company also entered into an agreement with BSAM and Shanghai Electronic Certificate Authority Center Co., Ltd. ("SHECA") under which the Company contributed RMB7,340,000 to the registered capital of BJCA. Subsequent to the transfer and capital injection, the Company's equity interest in BJCA will be changed from 90% to 46.7%.

# Financial Summary

	Year ended 31st December,				2003
	1999	2000	2001	2002	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>RESULTS</b>					
Turnover	14,702	49,854	149,745	237,474	<b>279,565</b>
Profit (loss) before taxation	3,996	(6,153)	(9,376)	12,912	<b>8,049</b>
Taxation	–	–	(916)	(2,410)	<b>(2,048)</b>
Profit (loss) before minority interests	3,996	(6,153)	(10,292)	10,502	<b>6,001</b>
Minority interests	–	–	359	(483)	<b>(52)</b>
Net profit (loss) for the year	3,996	(6,153)	(9,933)	10,019	<b>5,949</b>

	As at 31st December,			2003
	2000	2001	2002	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>ASSETS AND LIABILITIES</b>				
Total assets	356,651	777,407	703,853	<b>661,981</b>
Total liabilities	(141,619)	(257,517)	(163,755)	<b>(113,882)</b>
Minority interests	–	(4,060)	(492)	<b>(2,544)</b>
Shareholders' funds	215,032	515,830	539,606	<b>545,555</b>

Notes:

- (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, 12th Floor, Quantum Silver Plaza, 23 Zhichun Road, Haidian District, Beijing, The People’s Republic of China on Tuesday, 11th May, 2004 at 10:00 a.m. for the following purposes:

## As ordinary resolutions

1. To consider and approve the supervisors’ report for the year 2003;
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, 2003;
3. To consider and approve the re-appointment of auditors and to authorize the board of directors of the Company to fix their remuneration;
4. 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;

By order of the Board

**CAPINFO COMPANY LIMITED\***

**Dr. CHEN Xinxiang**

*Chairman*

Beijing, the People’s Republic of China,  
25th March, 2004

\* *For identification purpose only*

Notes:

1. The register of shareholders of the Company will be closed from 11th April, 2004 (Sunday) to 11th May, 2004 (Tuesday) (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 10th April, 2004 (Saturday) 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 21st April, 2004 (Wednesday). The reply slip may be delivered by hand or by post.