

CAPINFO

Capinfo Company Limited

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



Annual Report 2004

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” in order to obtain up-to-date information on GEM-listed issuers.

This annual report, for which the directors (the “Directors”) of Capinfo Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on the basis and assumptions that are fair and reasonable.

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Corporate Information

Registered Office	No. 11 Xi San Huan Zhong Road Beijing 100036 The People's Republic of China (the "PRC")
Principal place of business in Hong Kong	37th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Principal place of business in the PRC	12th Floor Quantum Silver Plaza No. 23 Zhi Chun Road Haidian District Beijing, PRC
GEM Stock Code	8157
Website address	www.capinfo.com.cn
Company Secretary	Mr. LO Wai Tat, Andrew, ACCA, HKICPA (盧偉達先生)
Compliance Officer	Ms. ZHANG Yan (張延女士)
Qualified Accountant	Mr. LO Wai Tat, Andrew, ACCA, HKICPA (盧偉達先生)
Audit Committee	Mr. WONG Ying Ho, Kennedy (<i>Chairman</i>) (黃英豪先生) Mr. NG Kin Fai, Francis (伍健輝先生) Mr. Liu Dong Dong (劉東東先生)

Corporate Information

Authorised Representatives

Ms. ZHANG Yan

(張延女士)

Mr. LO Wai Tat, Andrew, ACCA, HKICPA

(盧偉達先生)

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

Mallesons Stephen Jaques

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

2004 was a challenging and innovative year for Capinfo Company Limited ("Company" or "Capinfo"). During the period, the Company and its subsidiaries (collectively the "Group") proactively responded to market competition. This was demonstrated, on the one hand, by optimising the Group's business structure in support of its core businesses and on the other hand, boosting its research and development capabilities and reinforced internal management and its image as a "digital urban developer". These initiatives provided substantial assurance to the Group's leading position in e-Government, e-Commerce and network infrastructure services.

The Group had sustained development across its core businesses. Steady progress was made in the Group's construction of the e-Government network in Beijing. The Group also continued to upgrade the stability of operation and applications of the Beijing Medical Insurance Information System. Building on the efficiency in ensuring the operation and maintenance of the Beijing Community Services Information Network System, the Group was actively driving the informatisation of the communities of the nation's cities. Except electronic payment, the e-Government business was scaled down by the Group due to its lower gross profit margin.

The Group has made significant progress in research and development ("R&D") in various subjects such as the "Multilingual Intelligent Information Service Network System for the Olympic Games". The Group took advantage of undertaking the State's 863 Project and made use of the array of opportunities arising from the Olympics and its brand to rationalize its resources for international cooperation. The Group took a market-oriented approach in its active participation in the informatization development for the 2008 Olympic Games in Beijing.

Currently, urban informatisation is rapidly penetrating all sectors of the society and is generally accepted. As the markets for e-Government, e-Commerce and network infrastructure services are expanding, the Group will take advantage of all kinds of integrated benefits, strengthen its R&D capability, grasp the Olympics opportunities, promote the Group's business development and with an aim to generate substantial reward to shareholders.

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

Dr. CHEN Xinxiang

Chairman

Beijing, the People's Republic of China,
21st March, 2005



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, 2004, the Company and its subsidiaries (collectively the "Group") recorded an audited turnover of approximately RMB241 million, representing a decrease of approximately 14% over the same period of last year, and a gross profit margin of 28%, as compared with 25% for last year. The Group has sustained an audited net loss of approximately RMB1.8 million for the year under review as against net profit of approximately RMB5.9 million last year.

During the year under review, the Group reduced the e-Commerce business which had a relatively low profit margin. As a result, the turnover, selling expenses and gross profit decreased and the gross profit margin increased.

Losses sustained by an associate and a jointly controlled entity carrying out information kiosk business and emergency aid system business respectively plus the decrease in turnover and gross profit mentioned above were attributable to the net loss sustained for the year under review.

Other operating income included interest income and government grants which decreased in the year under review.

The Group's current ratio, defined as total current assets over total current liabilities, increased from 3.7 to 4.7 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.

As at 31st December, 2004, the Group had unsecured borrowings of RMB10 million, at an annual interest rate of 2.25% out of which, RMB4 million will become mature within 1 year and RMB6 million will mature within 2 - 5 years from 31st December, 2004. Cash and bank deposits of the Group were RMB286 million as at 31st December, 2004 which mainly came from shareholders' contribution and working capital generated from operations.

As at 31st December, 2004, the Group had no assets pledged and had capital commitment of approximately RMB125 million.

During the year, there was a claim of approximately RMB14,000,000 from a supplier against the Group as the compensation for the cost and loss arising from the suspension of a material supply contract. Based on the advice from the Group's legal consultant, the directors are of the opinion that the Group has strong grounds to defend against the claim and will defend the case vigorously. The directors believe that the Group will be able to recover the loss, if any, from its customer since the suspension of the material supply contract

Management Discussion and Analysis

was arising from the customer's request to suspend its contract with the Group. Therefore, the directors are of the view that the Group is not expected to suffer any significant loss in this litigation and no provision has been made in the financial statements.

During the year, there was a claim of approximately RMB28,000,000 from a contractor against the Group for the suspension of a contract of RMB8,400,000 regarding development and maintenance of intellectual properties of an e-Government information system. The remaining consideration payable by the Company for such service under the contract amounted to RMB6,300,000. On 9th December 2004, a judgement was handed down by First Intermediate Court of Beijing of the PRC, and the judge found in favour of the contractor and the Company was ordered to pay damages of approximately RMB14,280,000. An appeal was lodged by the Company on 23rd December 2004. Based on the advice of the Group's legal consultant, the directors are of the opinion that except for the remaining consideration mentioned above, other amount claimed is irrelevant to the contract. In addition, the directors are of the opinion that the contractor failed to perform its obligations under the contract and therefore the Group has strong grounds to defend against the claim. No provision has been made in the financial statements.

During the year under review, the Group's financial position was not exposed to significant fluctuations in exchange rates and any related hedges.

Business Review

Our businesses saw stable development during the year under review. The Group continued to provide quality products and services in sectors of e-Commerce and e-Government with ultimate objectives of increasing profit and customer satisfaction.



Capital Public Information Platform

During the year under review, the Group made smooth progress in the business of e-Government private network. As at the end of 2004, more than 1,200 kilometers of e-Government private network optical cable were built, with 500 kilometers as city optical cable and the remaining 700 kilometers as country optical cable. These cables are connecting to 240 households, covering 18 counties, units formed by the municipal government of Beijing, Commission of Beijing Municipality, People's Government of Beijing Municipality, Political Commission of Beijing Municipality and the General Union. To date, the e-Government intranet platform has linked up with the Beijing municipal government's communication system, the Beijing municipal government's paperless office system, Beijing municipal's order inspection and surveillance system and the Beijing municipal's organizations and unions system. The launch of the government's outranet platform has opened up the connection with Beijing municipal investment approval platform, avian flu information transfer system and other cross-departmental horizontal systems, Beijing municipal planning commission's office

Management Discussion and Analysis

website, Beijing municipal statistical computer business private website and ten other vertical business websites. The e-Government private network has provided quality services for individual business units and has increased system automation, computerisation, network efficiency and the overall computerisation process of these governmental departments.

Medical Insurance System and Citizen Card Business

During the year under review, based on the pledge to provide a stable and steady operation of the Beijing medical insurance information system, the Group has improved and renewed several subsidiary systems. The medical insurance approval and audited system, medical insurance sub-system of the administrative and management department, the rural new cooperative medical insurance information system for Chaoyang district of Beijing city finally went online and the medical insurance wide area network has also passed the business tests. As at the end of 2004, nearly five million people are insured. The system is progressing stably and efficiently. The Group kept on conducting Hospital Information System ("HIS") technical development certification work. Currently, more than 30 HIS developers are awarded with technological certifications.

The real name medical card system has been running steadily on the online systems of certain hospitals with accumulated cardholders of nearly 200,000. In concordance with the Beijing City Health Department, the system will gradually be promoted to other hospitals. The citizen card exchange system developed by the Group is connected to Beijing citizen card data center and medical insurance center. After testing, it is sharing data between the two centers and takes about 10 hours to exchange more than 1.5 million record changes of citizen's health reports.

e-Community Business

During the year under review, Beijing City's community service network system is fully operational. The whole city is accessible to the data center through the Internet, with volume of message sent reaching eight million. The using volume of 96,165 saw steady growth, with daily calls amounting to more than a thousand. The Group's e-community business is supported by the e-business and urban informatization of the State's Technological Department (國家科技部). It has better branding effects and is currently promoted in Wuhan and Dongguan. The prototype data switching system for multiple applications of Beijing citizen card and the citizen card testing platform based on multi-applications have passed the comprehensive testing provided by Beijing software products quality testing and examination center.



Management Discussion and Analysis

Electronic Payment Business

During the year under review, the online payment business saw continuous growth and successful transactions on hefty rise. The total number of users participated in online trading reached more than 1.4 million, making successful transactions amounted to more than one hundred million dollars in the year. In October 2004, all research students in Beijing registered their first installment of school fees through the Internet. Co-operating with Peking University, Tsinghua University, University of Political Science and Law and other organizations, PhD students also paid their school fees through the Group's online platform.

Call Center Business

Based on the completion of traditional businesses such as black-listed medical enquiries business, the self-operated Call Center (96102) has become a telephone hotline on behalf of Beijing City for local citizens to enquire on winter sheltering arrangements. The hotline has received more than 30,000 telephone enquiries during the year under review, doubled from that of the previous year. Service level is highly recognized by the leadership and is on the way to be included under the hotline service systems. The plan is yet to be confirmed.

GPS System

The first stage of the installation of the highly autonomous border security troop controlling system developed by the Company in the border of Jilin Province and Public Security Marine Police High School has been completed. The Group has participated in the satellite navigation application system initiated by the State Intellectual Property Office (國家信息產業部) in the formulation of satellite positioning navigating application standard and standards for several electronic industries. Those works are going smoothly.

Expanding Overseas Market

With headquarter in Beijing, the Group has business interests in the whole nation. It actively promotes the informatisation of community in the capital and across the cities of the state, aiming to become one the most concerned technology providers and offer quality digitized community solution for cities. Having tasted the success of business in Central China, the Group will continue to expand production in the national market. To date, the Group has accomplished the computer system consultation project in Dongguan.

Research and Development

The Group has basically completed the national "863" project and the research of Beijing City's technological plan on the "multi-lingual intelligent information service network system for the Olympic Games". Moreover, demonstration project of the Olympic multi-language official web-site, multi-language information kiosk and multi-language mobile end prototype system is accomplished. Citizens and tourists can now log-on to the information kiosk system and enjoy its multi-lingual voice-message and multi-media services on tourist and weather information. To date, the second phase of the "multi-lingual intelligent information service network system" has been included in the "863" project and has further support from Beijing city.

Management Discussion and Analysis



Employees

Professionals are the Group's precious assets. As at 31st December 2004, the Group had 422 employees as against 547 employees at the end of 2003. Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include retirement

benefits and share options. During the year under review, total staff cost paid was approximately RMB40 million (2003: RMB48 million). The Company had adopted a Pre-IPO Share Option Plan and Share Option Scheme on 6th December 2001. Options had been granted to certain Directors and employees of the Group under the Share Option Scheme during the year under review.

Future Prospects

In 2005, the Group will endeavor to expand business growth, reduce business risks and to "maximize shareholders' profit value. The Group will further consolidate its competitive edge as a digitized city application service provider and to expand market presence in the national market. With our enriched experience and operations in city digitalization, we strive to tap into the national digitized city market with state-of-the-art solution, project implementation and consultation services.

Directors, Supervisors and Senior Management

Executive Directors

Dr. CHEN Xinxiang (陳信祥博士), aged 62, 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 36, 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 51, 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 47, 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. LI Min Ji (李民吉先生), aged 40, became a non-executive Director in September 2004, and is currently deputy general manager of the State-owned Asset Management Corporation Limited ("BSAM"). Mr. Li graduated from the Faculty of Finance and Administration of the People's University, PRC and received a master degree in economics. He successively served as an assistant to the chief executive officer of Beijing International Trust and Investment Corporation Limited, chief executive officer of Beijing Venture Capital Co., Ltd., deputy general manager of Capital Securities Co., Ltd. and has over 15 years of experience in operation and management.

Mr. XING De Hai (邢德海先生), aged 64, became a non-executive Director in September 2004, and is currently specially appointed director of BSAM. Mr. Xing graduated from the Party School of Beijing Commission. He successively served as chairman of Beijing Longda Light Industry Holdings Company Limited, general manager of Beijing Second Light Industry Corporation and has over 45 years of experience in operation and management.

Mr. QI Qigong (戚其功先生), aged 43, 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 64, 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 Radio TV & Communication Technology Co. Ltd.

Directors, Supervisors and Senior Management

Ms. TAN Guo An (譚國安女士), aged 59, joined the Company in July 2003 as a non-executive Director and is currently the deputy general manager of China Monetary Electronisation 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.

Mr. YE Yong Dong (野永東先生), aged 49, 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 deputy chief engineer of China Telecom Data Communications Bureau. He has over 26 years of experience in management.

Mr. LU Dong Tao (盧東濤先生), aged 42, 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 of Business), with a degree in economics. Mr. Lu had worked in Discussion Office (理論處) of Promotion Department under Beijing City Committee of the Communist Party of China 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 34, 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 of Business) in 1993 with a degree in corporate management. Mr. Xu worked in Beijing International Trust and Investment Corporation Limited and has over 9 years of experience in corporate operation and management.

Mr. BAI Li Ming (白利明先生), aged 31, 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.

Directors, Supervisors and Senior Management

Independent non-executive Directors

Mr. WONG Ying Ho, Kennedy (黃英豪先生), aged 42, 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 China Overseas Land & Investment Ltd., Goldlion Holding Limited, i-SteelAsia Holdings Limited, Qin Jia Yuan Media Services Company Limited, Far Eastern Polychem Industries Limited 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, co-chairman of Asia Investment Capital Partners' Limited, as well as a member of the Election Committee of Hong Kong.

Mr. NG Kin Fai, Francis (伍健輝先生), aged 46, is an independent non-executive Director. He joined the Group in December 2001. Mr. Ng has substantial experience in areas such as publication of high tech magazines. He is currently the director and general manager of Technology Exchange Limited which publishes magazines such as International Broadcast Information, International Broadband Network, International Telecommunications Network, International Instrumentation & Automation, and International Medical Devices, all of which are very well recognised in the PRC. Technology Exchange Limited also jointly publishes an academic and global publication, in English, namely the "Chinese Journal of Electronics", with the Chinese Institute of Electronics.

Mr. LIU Dong Dong (劉東東先生), aged 30, joined the Group and became a non-executive Director in September 2004, is currently executive director of Beijing Jingdu Management Consultant Company Limited. Mr. Liu graduated from the North East University of Finance and Economics in 1997 and received a bachelor degree in economics. He is a member of the Chinese Institute of Certified Public Accountants and the Association of Chartered Certified Accountants since 2000 and successively served as senior accountant of Shougang Concord Group Corporation, project manager of Horwath International Beijing Jingdu Certified Public Accountants Co., Ltd. He has over 6 years of experience in operation and management.

Qualified Accountant and Company Secretary

Mr. LO Wai Tat, Andrew (盧偉達先生), aged 32, 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 a member of the Hong Kong Institute of Certified Public Accountants. He was an audit manager of an international accounting firm before joining the Company in October 2001 and possesses over 9 years working experience in auditing and financial management.

Directors, Supervisors and Senior Management

Supervisors

Ms. LIU Jian (劉健女士), aged 53, a Supervisor of the Company. She was appointed 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 of Beijing Wandong Medical Instrument Company 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 29, 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 China Chongqing Institute of Technology with a bachelor degree in accountancy in 1998, and has over 5 years of management experience.

Mr. CHENG Huajun (程華軍先生), aged 32, 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 bachelor degree in engineering.

Senior Management

Mr. LU Shouqun (陸首群先生), aged 68, joined the Company in January 1998. He was appointed as a director as well as the president of CIHC in January 1998. In July 2001, he resigned from the position of executive director and president of the Company due to his senior age. He is currently the chief officer in charge of the Beijing Network Multimedia Research Laboratory. Mr. Lu graduated from the faculty of Electrical Engineering of Tsinghua University in 1958. Prior to joining the Company, Mr. Lu was the Deputy Manager of the Associated Office of the State Council Office of Digitalisation, Chairman of the Board of Jitung Company and Manager of The Office for the Promotion Beijing Electronic Industry. Mr. Lu has over 40 years of management and administration experience.

Mr. SHAO Jianping (邵建平先生), aged 52, joined the Company in April 2001 and he currently is a Vice Chief Executive of the Company. Mr. Shao graduated from the Faculty of Electronic Engineering of Tsinghua University in 1977. Prior to joining the Company, Mr. Shao was the general manager of Beijing 3rd Computer Plant's research department, general manager of Beijing 3rd Computer's Dinghuo Company, and the Vice general manager of Beijing 3rd Computer's Shanhai Company. Mr. Shao has over 25 years of management and administration experience.

Directors, Supervisors and Senior Management

Mr. HE Huakang (何華康先生), aged 60, joined the Company in May 2002 and is currently the Vice Chief Executive of the Company. Mr. He graduated from the Faculty of Automation of Tsinghua University in 1981 with a master degree specialising in automation. Prior to joining the Company, Mr. He had served as deputy head of the 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. He has more than 20 years' experience in business operation and management.

Mr. SUN Zixi (孫子系先生), aged 53, joined the Company in September 2002 and is currently a 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 69, 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, and a senior member of the International Electrical and Electronic Engineering Club (IEEE).

Directors' Report

The directors present their report and the audited financial statements for the year ended 31st December, 2004.

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, 2004 are set out in the consolidated income statement on page 31 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 RMB19 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)

Directors' Report

Non-executive directors:

Mr. Li Minji	(appointed on 28th September, 2004)
Mr. Xing Dehai	(appointed on 28th September, 2004)
Mr. Fan Dazhi	(retired on 28th September, 2004)
Mr. Qi Qigong	
Mr. Pan Jiaren	
Ms. Tan Guoan	
Mr. Ye Yongdong	
Mr. Lu Dongtao	
Mr. Xu Zhe	
Mr. Bai Liming	

Independent non-executive directors:

Mr. Wong Ying Ho, Kennedy	
Mr. Ng Kin Fai, Francis	
Mr. Liu Dongdong	(appointed on 28th September, 2004)

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

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, none of the directors' and supervisors' terms of office expired and all directors and supervisors remained in office except Mr. Fan Dazhi retired on 28th September, 2004.

Directors' Report

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.

Disclosure of Interests

a. Directors and Chief Executive of the Company

Save as disclosed below, as at 31st December, 2004, none of the Directors, and chief executive of the Company and their respective associates had any interest and short position in the shares, debentures or underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

Long positions in the underlying shares – options under share option scheme

Name	Number of H Shares subject to options outstanding at 31st December, 2004			Percentage to the issued H share capital
	Granted under the Pre-IPO Share Option Plan	Granted under the Share Option Scheme	Total	
<i>Directors</i>				
Dr. Chen Xinxiang	1,309,750	2,700,000	4,009,750	0.51%
Dr. Wang Xu	1,297,350	1,466,000	2,763,350	0.36%
Ms. Zhang Yan	1,308,200	1,466,000	2,774,200	0.36%
Dr. Wu Bo	1,261,700	1,466,000	2,727,700	0.35%
Mr. Qi Qigong	1,244,650	1,466,000	2,710,650	0.35%
Mr. Pan Jiaren	1,244,650	1,466,000	2,710,650	0.35%
Mr. Wong Ying Ho, Kennedy	1,241,550	1,466,000	2,707,550	0.35%
Mr. Ng Kin Fai, Francis	1,241,550	1,466,000	2,707,550	0.35%
	10,149,400	12,962,000	23,111,400	2.98%

Directors' Report

All of the above-mentioned share options granted under the Pre-IPO Share Option Plan were granted on 6th December, 2001 at a payment of RMB1.00 for each grant with exercise price at HK\$0.48 per H Share to recognise the past and present contributions of the grantee to the Group. The share options granted to the Directors of the Company are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule and subject to certain restrictions imposed by the relevant PRC laws and regulations:

**Proportion of share options granted
and held by each of the Directors
which become exercisable**

Exercise period

20%	7th December, 2002 to 6th December, 2011
20%	7th December, 2003 to 6th December, 2011
20%	7th December, 2004 to 6th December, 2011
20%	7th December, 2005 to 6th December, 2011
20%	7th December, 2006 to 6th December, 2011

All of the above-mentioned share options granted under the Share Option Scheme were granted on 17th August, 2004 at a payment of RMB1.00 for each grant with exercise price at HK\$0.41 per H Share to recognise the past and present contributions of the grantee to the Group. The share options granted to the Directors of the Company are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule and subject to certain restrictions imposed by the relevant PRC laws and regulations:

**Proportion of share options granted
and held by each of the directors
which become exercisable**

Exercise period

25%	18th August, 2005 to 17th August, 2014
25%	18th August, 2006 to 17th August, 2014
25%	18th August, 2007 to 17th August, 2014
25%	18th August, 2008 to 17th August, 2014

Directors' Report

b. Substantial shareholders of the Company and other persons (other than Directors or chief executives of the Company)

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of the Company of any person (other than a Director or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as at 31st December, 2004:

Name of shareholder	Number of shares held	Capacity	Percentage to the issued share capital
Beijing State-owned Assets Management Corporation Limited	1,783,631,919 domestic shares	Beneficial owner	61.55%

So far as is known to any Director or chief executive of the Company, the following companies/persons were interested in 10% or more of the equity interests of any other members of the Group as at 31st December, 2004:

Name	Equity interests held in members of the Group (except for the Company)	Nature of interests	Approximate percentage
Business Incubator of Chongqing Hi-tech Industrial Development Zone	Chongqing Hongxin Software Company Limited	Beneficial owner	10%

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.

Directors' Report

Share Option Schemes

(a) Pre-IPO Share Option Plan

Pursuant to a pre-IPO share option plan ("Plan") adopted by the Company at the extraordinary general meeting held on 6th December 2001, the Company has granted options to subscribe a total of 70,474,920 H Shares in the Company with a payment of RMB1 upon each grant of options and with an exercise price of HK\$0.48 per H Share to recognise the past and present contributions of the grantee to the Group. Such options granted are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule and subject to certain restrictions as imposed by the relevant PRC laws and regulations:

Proportion of share options granted and held by the grantees which become exercisable	Exercise period
20%	7th December 2002 to 6th December 2011
20%	7th December 2003 to 6th December 2011
20%	7th December 2004 to 6th December 2011
20%	7th December 2005 to 6th December 2011
20%	7th December 2006 to 6th December 2011

Details of the share options held by the Directors, other key management and other parties and movements in such holdings during the year are disclosed in note 21(a) to the financial statements.

None of the options granted under the Plan has been exercised during the year.

Directors' Report

(b) Share Option Scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 6th December, 2001 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for H Shares in the Company with a payment of RMB1 upon each grant of options offered and the options granted must be taken up within 14 trading days from the date of grant. The 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 during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme, the relevant PRC laws and regulations and any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the number of H Shares of the Company in issue from time to time. The total number of H shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes 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 the conditions set out in the Scheme. No person shall be granted an option which, if all the options granted to the person (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.

Details of the share options held by the Directors, other key management and other parties and movements in such holdings during the year are disclosed in note 21(b) to the financial statements.

The Company has granted 67,298,000 options under the Scheme on 17 August 2004 at RMB1 for each grant of options and with an exercise price of HK\$0.41 per H Share. The closing price of the H Shares immediately before the date on which the options were granted was HK\$0.186 per H Share.

Directors' Report

These options are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to certain restrictions as imposed by the relevant PRC laws and regulations:

Proportion of share options granted and held by the grantees which become exercisable	Exercise period
25%	18th December 2005 to 17th December 2014
25%	18th December 2006 to 17th December 2014
25%	18th December 2007 to 17th December 2014
25%	18th December 2008 to 17th December 2014

Total consideration received during the year for taking up the options granted amounted to RMB114 (2003: nil).

Rule 23.08 of the GEM Listing Rules stipulates that listed issuers are encouraged to disclose in their annual and interim reports the value of the options granted to participants set out in (1) to (5) of Rule 23.07 during the period under review. Given that a number of factors crucial for the valuation of the options under all plans and schemes of the Company, such as the date of exercise and other conditions (if any) that the options may subject to cannot be determined, the Directors consider that any valuation of the options based on various speculative assumptions would not be meaningful and appropriate. For instance, the Black-Scholes option pricing model, which is one of the model specified under the Note to Rule 23.08 of the GEM Listing Rules, was developed for use in estimating the fair value of trade options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and the changes in the subjective input assumptions can materially affect the fair value estimation, the Directors consider such option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

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 75% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 27% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 67% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 38% 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.

Directors' Report

Purchase, Sale or Redemption of the Company's Listed Securities

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

Pre-emptive Rights

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

Corporate Governance

The Company has established an audit committee with written terms of reference as set out in Rules 5.28 and 5.29 of the GEM Listing Rules.

The audit committee comprises three independent non-executive directors, Messrs. Wong Ying Ho, Kennedy, Ng Kin Fai, Francis and Liu Dongdong. Mr. Wong Ying Ho, Kennedy is 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.

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

The Company has complied throughout the period under review with the provisions on board practices and procedures in the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, from the financial year commencing on 1 January 2005.

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.

Directors' Report

Post Balance Sheet Event

There was no significant post balance sheet event.

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 People's Republic of China,
21st March, 2005

Supervisors' Report

To all shareholders,

In 2004, in accordance with the Company Law, Articles of Association of the Company, Securities Law and other laws and regulations, the supervisory committee of the Company (the "Supervisory Committee") properly performed its supervisory and examining duties, paid close attention to the Company's operation status, attended Board Meetings, checked the financial status of the Company, supervised the operation and management, protected Shareholders' interests, and performed the function of supervision and checking.

In 2004, Supervisory Committee held four meetings, reviewed the Company's financial statements quarterly, and discussed with the management on relevant issues. During this period, in accordance with the requirements of the relevant laws, regulations and Articles of Association of the Company, the Supervisory Committee has exercised its supervisory powers over the procedures for convening and the resolutions of the shareholders' meeting and Board meetings of the Company, the implementation of the shareholders' resolutions by the Board, the conduct of senior management of the Company and internal control systems of the Company. The Supervisory Committee is of the view that the decision making procedures at the shareholders' meeting and each of the Board meetings to be legal, and the internal control system of the Company basically sound. So far as the Supervisory Committee is aware, during this reporting period, each Director and other Executives has complied with the relevant requirements of Listing Rules of the Hong Kong Stock Exchange Company Limited and the relevant regulations of the China Securities Regulatory Commission, and there is no violation of any applicable laws, regulations and Articles of Association of the Company.

The Supervisory Committee has carefully analysed the Company's financial statements for 2004. The Supervisory Committee is of the view that, during the reporting period, the financial activities of the Company strictly adhered to the Company's financial management and internal control systems. The 2004 financial report has, in all major aspects, fairly reflected the Company's financial status and operation results.

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

By the order of the Supervisory Committee

Ms. Liu Jian

Chairman of the Supervisory Committee

Beijing, The People's Republic of China

21st March, 2005

Auditors' Report



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

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those financial 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 Institute of Certified Public 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, 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 21st March, 2005

Consolidated Income Statement

For the year ended 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	4	241,455	279,565
Cost of sales		(174,370)	(209,964)
Gross profit		67,085	69,601
Other operating income		11,499	12,348
Research and development costs		(17,188)	(17,015)
Marketing and promotional expenses		(13,820)	(15,481)
Administrative expenses		(39,527)	(37,606)
Profit from operations	5	8,049	11,847
Amortisation of goodwill		(104)	–
Interest on other loan wholly repayable within five years		(289)	(254)
Share of losses of associates		(4,037)	(2,992)
Share of loss of a jointly controlled entity		(1,491)	(552)
Gain on disposal of a subsidiary		250	–
Profit before tax		2,378	8,049
Income tax expense	8	(4,782)	(2,048)
(Loss) profit before minority interests		(2,404)	6,001
Minority interests		598	(52)
Net (loss) profit for the year		(1,806)	5,949
(Loss) earnings per share – Basic	9	(0.06 cents)	0.20 cents

Consolidated Balance Sheet

At 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	10	165,029	222,847
Interests in associates	12	26,370	21,171
Interests in a jointly controlled entity	13	1,957	3,448
Investments in securities	14	16,350	16,350
Deposits made on acquisition of property, plant and equipment		658	1,152
		210,364	264,968
Current assets			
Inventories	15	19,766	16,337
Amounts due from customers for contract work	16	17,973	30,001
Trade and other receivables	17	104,773	88,966
Amounts due from associates		4,670	2,137
Bank balances and cash		285,703	259,572
		432,885	397,013
Current liabilities			
Trade and other payables	18	61,275	60,726
Customers' deposits for contract work		22,012	41,079
Taxation payable		4,931	2,077
Current portion of other loan	19	4,000	2,000
		92,218	105,882
Net current assets			
		340,667	291,131
		551,031	556,099
Capital and reserves			
Share capital	20	289,809	289,809
Reserves		253,940	255,746
		543,749	545,555
Minority interests			
		1,282	2,544
Non-current liabilities			
Other loan	19	6,000	8,000
		551,031	556,099

The financial statements on pages 31 to 70 were approved and authorised for issue by the Board of Directors on 21st March, 2005 and are signed on its behalf by:

Dr. CHEN Xinxiang
CHAIRMAN

Ms. ZHANG Yan
VICE CHIEF EXECUTIVE

Balance Sheet

At 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	10	163,524	218,630
Investments in subsidiaries	11	18,000	22,500
Interests in associates	12	34,110	24,770
Interest in a jointly controlled entity	13	4,000	4,000
Investments in securities	14	15,350	15,350
Deposits made on acquisition of property, plant and equipment		658	1,152
		235,642	286,402
Current assets			
Inventories	15	19,569	15,600
Amounts due from customers for contract work	16	17,973	29,102
Trade and other receivables		104,678	85,652
Amounts due from subsidiaries		519	3,251
Amounts due from associates		4,670	2,137
Bank balances and cash		274,200	236,760
		421,609	372,502
Current liabilities			
Trade and other payables		60,301	56,365
Customers' deposits for contract work		22,012	41,079
Taxation payable		4,931	2,077
Current portion of other loan	19	4,000	2,000
		91,244	101,521
Net current assets			
		330,365	270,981
		566,007	557,383
Capital and reserves			
Share capital	20	289,809	289,809
Reserves	22	270,198	259,574
		560,007	549,383
Non-current liabilities			
Other loan	19	6,000	8,000
		566,007	557,383

Dr. CHEN Xinxiang
CHAIRMAN

Ms. ZHANG Yan
VICE CHIEF EXECUTIVE

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated (losses) profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2003	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
Transfer	-	-	828	414	(1,242)	-
Net loss for the year	-	-	-	-	(1,806)	(1,806)
At 31st December 2004	289,809	254,079	1,378	689	(2,206)	543,749

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	Note	2004 RMB'000	2003 RMB'000
Operating activities			
Profit before tax		2,378	8,049
Adjustments for:			
Interest income		(1,776)	(4,791)
Interest expenses		289	254
Share of losses of associates		4,037	2,992
Share of loss of a jointly controlled entity		1,491	552
Gain on disposal of a subsidiary		(250)	–
Amortisation of goodwill		104	–
Depreciation		47,856	55,605
Loss on disposal of property, plant and equipment		251	82
Allowance for doubtful debts		2,262	2,125
		<hr/>	
Operating cash flows before movements in working capital		56,642	64,868
(Increase) decrease in inventories		(4,153)	12,078
Decrease (increase) in amounts due from customers for contract work		36,795	(264)
Increase in trade and other receivables		(20,946)	(13,178)
Increase in trade and other payables		4,084	9,370
Decrease in customers' deposits for contract work		(19,067)	(60,315)
		<hr/>	
Cash generated from operations		53,355	12,559
Mainland China income tax paid		(1,928)	(1,476)
		<hr/>	
Net cash from operating activities		51,427	11,083
		<hr/>	
Investing activities			
Interest received		1,776	4,791
Dividend received from a former subsidiary		1,473	–
Purchase of property, plant and equipment		(18,622)	(77,901)
Proceeds from disposal of property, plant and equipment		252	303
Disposal of a subsidiary	23	(2,693)	–
Acquisition of associates		–	(15,770)
Capital contribution to an associate		(7,340)	–
Acquisition of a jointly controlled entity		–	(4,000)
Acquisition of investments in securities		–	(500)
Decrease (increase) in amounts due from associates		147	(1,402)
Decrease in pledged bank deposits		–	106,110
Increase in bank deposits not within three months of maturity		(1,846)	(51,048)
		<hr/>	
Net cash used in investing activities		(26,853)	(39,417)

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004	2003
	RMB'000	RMB'000
Financing activities		
Interest paid	(289)	(254)
Capital contributions from minority owners of subsidiaries	–	2,000
	<hr/>	<hr/>
Net cash (used in) from financing activities	(289)	1,746
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	24,285	(26,588)
Cash and cash equivalents at 1st January	208,418	235,006
	<hr/>	<hr/>
Cash and cash equivalents at 31st December	232,703	208,418
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	285,703	259,572
Less: Bank deposits not within three months of maturity	(53,000)	(51,154)
	<hr/>	<hr/>
	232,703	208,418
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December, 2004

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 and its subsidiaries are principally engaged in the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment.

2. Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. Significant accounting policies

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

Basis of consolidation

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. Significant accounting policies (continued)

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 (net of any identified impairment loss) on acquisition.

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, interests in associates are stated at cost, as reduced by any identified impairment loss.

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.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. Significant accounting policies (continued)

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.

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.

Government grants

Government grants are obtained specifically for certain of the Group's 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, 2004

3. Significant accounting policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life. Goodwill on acquisitions of subsidiaries is presented separately in the balance sheet. Goodwill on acquisition of the associate or jointly controlled entity is included in investments in associates or jointly controlled entity.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment. 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.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

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 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.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. Significant accounting policies (continued)

Installation contracts (continued)

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 recognized for the asset (cash-generating unit) 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.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. Significant accounting policies (continued)

Research and development costs (continued)

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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. Significant accounting policies (continued)

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

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as an expense as they fall due.

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, 2004

4. Business and geographical segments (continued)

Business segments (continued)

Business segments for the year are as follows:

	2004		2003	
	Turnover RMB'000	Results RMB'000	Turnover RMB'000	Results RMB'000
e-Government technology services	217,161	44,252	212,540	44,689
e-Commerce technology services	24,294	(15,044)	67,025	(8,640)
	241,455	29,208	279,565	36,049
Other operating income		11,499		12,348
Central administrative expenses		(32,658)		(36,550)
Profit from operations		8,049		11,847
Amortisation of goodwill		(104)		-
Interest on bank borrowings wholly repayable within five years		(289)		(254)
Loss from interest in associates engaged in other businesses		(4,037)		(2,992)
Loss from interest in a jointly controlled entity engaged in other business		(1,491)		(552)
Gain on disposal of a subsidiary		250		-
Profit before tax		2,378		8,049
Income tax expense		(4,782)		(2,048)
(Loss) profit before minority interests		(2,404)		6,001
Minority interests		598		(52)
Net (loss) profit for the year		(1,806)		5,949

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 Mainland China 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, 2004

5. Profit from operations

	2004	2003
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration (note 6)	1,568	1,265
Other staff costs	35,914	41,782
Other staff's retirement benefits scheme contributions	2,929	5,332
	40,411	48,379
Less: Staff costs included in research and development costs	(6,103)	(6,585)
Staff costs capitalised in contract work	(6,941)	(10,044)
	27,367	31,750
Depreciation	73,523	83,990
Less: Depreciation included in research and development costs	(771)	(2,263)
Depreciation capitalised in contract work	(25,667)	(28,385)
	47,085	53,342
Operating lease rentals in respect of		
– cable network	11,137	16,328
– land and buildings	11,770	10,855
	22,907	27,183
Less: Operating lease rentals included in research and development costs	(1,354)	(2,220)
Operating lease rentals capitalised in contract work	(5,564)	(10,355)
	15,989	14,608
Auditors' remuneration	647	711
Cost of goods sold	30,011	68,547
Loss on disposal of property, plant and equipment	251	82
and after crediting:		
Government grants	8,959	7,616
Interest income from bank deposits	1,776	4,791

Notes to the Financial Statements

For the year ended 31st December, 2004

6. Directors' and supervisors' emoluments

	2004	2003
	RMB'000	RMB'000
Fees for		
– independent non-executive directors	262	213
– executive directors, other non-executive directors and supervisors	–	–
Other emoluments for non-executive directors	–	–
	262	213
Other emoluments for executive directors		
– basic salaries and allowances	1,167	870
– retirement benefits scheme contributions	8	50
	1,175	920
Other emoluments for supervisors		
– basic salaries and allowances	129	120
– retirement benefits scheme contributions	2	12
	131	132
	1,568	1,265

Notes to the Financial Statements

For the year ended 31st December, 2004

6. Directors' and supervisors' emoluments (continued)

For the year ended 31st December, 2004, basic salaries and allowances paid to the four executive directors were RMB378,000, RMB250,000, RMB289,000 and RMB250,000 respectively; while retirement benefits scheme contributions in respect of the four executive directors were RMB2,000, RMB2,000, RMB2,000 and RMB2,000 respectively. In addition, directors' fees paid to the independent non-executive directors were RMB106,000, RMB106,000 and RMB50,000 respectively.

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 RMB106,000.

During the year ended 31st December 2003, 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. No directors and supervisors waived emoluments during the year ended 31st December, 2004.

7. Employees' emoluments

The aggregate emoluments of the five highest paid individuals included two (2003: three) executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining three (2003: two) highest paid individuals are as follows:

	2004	2003
	RMB'000	RMB'000
Basic salaries and allowances	1,763	631
Retirement benefits scheme contributions	–	12
	1,763	643

The emoluments of each of the three (2003: two) individuals were within HK\$1,000,000 for both years.

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, 2004

8. Income tax expense

	2004	2003
	RMB'000	RMB'000
Current tax	4,782	2,048

The Company is recognised as a high-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 15% (2003: 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:

	2004	2003
	RMB'000	RMB'000
Profit before tax	2,378	8,049
Tax at domestic income tax rate of 15% (2003: 15%)	357	1,208
Income tax on concessionary rate	-	(604)
Tax effect of net expenses that are not deductible in determining taxable profit	2,698	1,178
Tax effect of tax losses of a subsidiary not recognised	898	-
Tax effect of tax losses of associates and a jointly controlled entity not recognised	829	266
Tax expense for the year	4,782	2,048

No provision for deferred taxation has been recognised in the financial statements as the amount involved is not significant.

Notes to the Financial Statements

For the year ended 31st December, 2004

9. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the net loss for the year of RMB1,806,000 (2003: profit of RMB5,949,000) and 2,898,086,091 (2003: 2,898,086,091) shares in issue during the year.

No diluted (loss) earnings per share has been presented in 2004 and 2003 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, 2004	79,811	17,379	311,076	3,677	327	29	412,299
Additions	4,120	116	14,153	256	-	471	19,116
Disposal of a subsidiary	(1,270)	(114)	(2,053)	(23)	-	-	(3,460)
Other disposals	(1,401)	-	(672)	-	-	-	(2,073)
At 31st December, 2004	81,260	17,381	322,504	3,910	327	500	425,882
Depreciation							
At 1st January, 2004	52,141	4,349	132,106	84,115	-	189,452	
Provided for the year	20,275	2,725	49,842	622	59	-	73,523
Disposal of a subsidiary	(124)	(8)	(419)	(1)	-	-	(552)
Eliminated on other disposals	(1,179)	-	(391)	-	-	-	(1,570)
At 31st December, 2004	71,113	7,066	181,138	1,462	74	-	260,853
Net book values							
At 31st December, 2004	10,147	10,315	141,366	2,448	253	500	165,029
At 31st December, 2003	27,670	13,030	178,970	2,836	312	29	222,847

Notes to the Financial Statements

For the year ended 31st December, 2004

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, 2004	77,070	17,265	307,719	3,071	-	29	405,154
Additions	3,790	116	14,151	108	-	471	18,636
Disposals	(1,401)	-	(672)	-	-	-	(2,073)
At 31st December, 2004	79,459	17,381	321,198	3,179	-	500	421,717
Depreciation							
At 1st January, 2004	50,967	4,341	130,384	832	-	-	186,524
Provided for the year	20,154	2,725	49,839	521	-	-	73,239
Eliminated on disposals	(1,179)	-	(391)	-	-	-	(1,570)
At 31st December, 2004	69,942	7,066	179,832	1,353	-	-	258,193
Net book values							
At 31st December, 2004	9,517	10,315	141,366	1,826	-	500	163,524
At 31st December, 2003	26,103	12,924	177,335	2,239	-	29	218,630

Notes to the Financial Statements

For the year ended 31st December, 2004

11. Investments in subsidiaries

Details of the Company's subsidiaries as at 31st December, 2004 are as follows:

						THE COMPANY	
						2004	2003
						RMB'000	RMB'000
Unlisted capital contributions, at cost						18,000	22,500
						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				Principal activities
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 (Hong Kong) Company Limited	Limited company	Hong Kong	HK\$2	100%			Investment holding

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

12. Interests in associates

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted capital contributions, at cost	–	–	34,110	24,770
Share of net assets	24,404	19,101	–	–
Goodwill of associates	1,966	2,070	–	–
	26,370	21,171	34,110	24,770

Notes to the Financial Statements

For the year ended 31st December, 2004

12. Interests in associates (continued)

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Movement of goodwill of associates is analysed as follows:		
Cost		
At 1st January	2,070	–
Acquisition	–	2,070
At 31st December	2,070	2,070
Amortisation		
At 1st January	–	–
Provided for the year	104	–
At 31st December	104	–
Carrying amount at 31st December	1,966	2,070

The amortisation period adopted for goodwill is 20 years.

Notes to the Financial Statements

For the year ended 31st December, 2004

12. Interests in associates (continued)

Details of the Company's associates, which are established and operating in the PRC, at 31st December, 2004 are as follows:

Name of associate	Form of business structure	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 of Authority Center Company Limited, "BJCA")	Domestic owned enterprise	46.7%	Provision of services related to digital certificates
北京信用管理有限公司 (Beijing Credit Management Bureau Co., Ltd.)	Domestic owned enterprise	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.)	Domestic owned enterprise	40%	Provision of information application services and related businesses
北京共創開源軟件有限公司 (Beijing Co-Creat Open Source Software Co., Ltd.)	Domestic owned enterprise	30.81%	Development, sales and management consultation of operation systems and related businesses

Notes to the Financial Statements

For the year ended 31st December, 2004

13. Interest in a jointly controlled entity

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted capital contributions, at cost	–	–	4,000	4,000
Share of net assets	1,957	3,448	–	–
	1,957	3,448	4,000	4,000

Details of the Company's jointly controlled entity, which is established and operating in the PRC, at 31st December, 2004 are as follows:

Name of entity	Form of business structure	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.)	Domestic owned enterprise	40%	Construction, operation and development of emergency aid and related business system

14. Investments in securities

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted other investments	16,350	16,350	15,350	15,350

Notes to the Financial Statements

For the year ended 31st December, 2004

14. Investments in securities (continued)

Details of other investments at 31st December, 2004 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 Ltd.)	5%	Development of computer software, computer system integration and technical consultancy
中關村信息工程股份有限公司 (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 digitalisation application business in medical and health sectors and related businesses
Astoria Innovations Ltd.	5%	Provision of labour force digitalisation market service and related businesses

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

15. Inventories

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At cost				
Raw materials	1,496	2,176	1,299	1,952
Equipment held for sales	18,270	14,161	18,270	13,648
	19,766	16,337	19,569	15,600

Notes to the Financial Statements

For the year ended 31st December, 2004

16. Amounts due from customers for contract work

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Contract costs incurred to date	278,173	222,571	278,173	221,672
Recognised profits less recognised losses	77,347	58,031	77,347	58,031
	355,520	280,602	355,520	279,703
Less: Progress billings	(337,547)	(250,601)	(337,547)	(250,601)
	17,973	30,001	17,973	29,102

17. Trade and other receivables

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Trade receivables from		
– a fellow subsidiary	1,021	1,844
– others	72,736	52,517
	73,757	54,361
Other receivables, deposits and prepayments	31,016	34,605
	104,773	88,966

Notes to the Financial Statements

For the year ended 31st December, 2004

17. Trade and other receivables (continued)

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

Age	THE GROUP	
	2004 RMB'000	2003 RMB'000
0 to 60 days	25,045	19,615
60 to 90 days	5,235	633
91 to 180 days	27,214	1,925
Over 180 days	16,263	32,188
	73,757	54,361

18. Trade and other payables

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Trade payables	4,840	21,132
Other payables	39,792	30,838
Other customers' deposits	16,643	8,756
	61,275	60,726

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

Age	THE GROUP	
	2004 RMB'000	2003 RMB'000
0 to 60 days	1,820	13,564
61 to 90 days	23	1,999
91 to 180 days	621	14
Over 180 days	2,376	5,555
	4,840	21,132

Notes to the Financial Statements

For the year ended 31st December, 2004

19. Other loan

	THE GROUP AND THE COMPANY	
	2004	2003
	RMB'000	RMB'000
The other loan is repayable as follows:		
Within one year	4,000	2,000
More than one year, but not exceeding two years	2,000	2,000
More than two years, but not exceeding five years	4,000	6,000
	10,000	10,000
Less: Amount due within one year shown under current liabilities	4,000	2,000
Amount due after one year	6,000	8,000

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

Notes to the Financial Statements

For the year ended 31st December, 2004

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, 2003, 31st December, 2003 and 2004	2,123,588,091	774,498,000	289,809

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 with a payment of RMB1 upon each grant of options and with 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 the terms and conditions of the plan, the relevant PRC laws and regulations and any conditions of the grant as stipulated by the board of directors.

Notes to the Financial Statements

For the year ended 31st December, 2004

21. Share Options (continued)

(a) Pre-IPO Share Option Plan (continued)

Details of the share options held by the directors, other key management and other parties and movements in such holdings during the year are as follows:

	Outstanding at			Outstanding at		Outstanding at
	1st January 2003	Lapsed during the year	Reallocation during the year	31st December 2003	Lapsed during the year	31st December 2004
Directors	16,541,600	(5,147,550)	-	11,394,050	(1,244,650)	10,149,400
Supervisors	3,795,950	-	-	3,795,950	-	3,795,950
Senior management	4,847,780	(774,690)	1,534,500	5,607,590	(770,970)	4,836,620
Senior advisors	3,929,250	-	-	3,929,250	(1,309,750)	2,619,500
Advisors	4,309,930	-	773,760	5,083,690	(773,760)	4,309,930
Other employees	35,500,890	(8,512,135)	(760,740)	26,228,015	(3,187,265)	23,040,750
Employees of Capnet Company Limited (note)	1,547,520	-	(1,547,520)	-	-	-
	70,472,920	(14,434,375)	-	56,038,545	(7,286,395)	48,752,150

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

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

(b) Share Option Scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 6th December, 2001 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for H Shares in the Company with a payment of RMB1 upon each grant of options offered and the options granted must be taken up within 14 trading days from the date of grant. The 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.

Notes to the Financial Statements

For the year ended 31st December, 2004

21. Share Options (continued)

(b) Share Option Scheme (continued)

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme, the relevant PRC laws and regulations and any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the number of H Shares of the Company in issue from time to time. The total number of H shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes 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 the conditions set out in the Scheme. No person shall be granted an option which, if all the options granted to the person (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.

Details of the share options held by the directors, other key management and other parties and movements in such holdings during the year are as follows:

	Balance at 1st January, 2004	Granted during the year	Lapsed during the year	Balance at 31st December, 2004
Directors	-	14,428,000	(1,466,000)	12,962,000
Supervisors	-	4,398,000	-	4,398,000
Senior management	-	9,166,000	-	9,166,000
Senior advisors	-	11,264,000	-	11,264,000
Advisors	-	3,302,000	-	3,302,000
Other employees	-	24,740,000	(918,000)	23,822,000
	-	67,298,000	(2,384,000)	64,914,000

The Company has granted 67,298,000 options under the Scheme on 17th August, 2004 at RMB1 for each grant of options and with an exercise price of HK\$0.41 per H Share.

Notes to the Financial Statements

For the year ended 31st December, 2004

21. Share Options (continued)

(b) Share Option Scheme (continued)

Total consideration received during the year for taking up the options granted amounted to RMB114 (2003: nil).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

22. Reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory welfare fund RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
THE COMPANY					
At 1st January, 2003	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
Transfer	–	828	414	(1,242)	–
Net profit for the year	–	–	–	10,624	10,624
At 31st December, 2004	254,079	1,378	689	14,052	270,198

Notes to the Financial Statements

For the year ended 31st December, 2004

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 RMB828,000 (2003: RMB550,000) and RMB414,000 (2003: RMB275,000) to the statutory surplus reserve and statutory welfare fund has been made respectively.

At the balance sheet date, the Company had reserves of RMB14,052,000 (2003: RMB4,670,000) available for distribution to shareholders.

The accumulated profit of the Group include loss of RMB7,636,000 (2003: RMB3,599,000) and loss of RMB2,043,000 (2003: RMB552,000) retained by the Group's associates and jointly controlled entity, respectively.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. Disposal of a subsidiary

During the year, the Group has disposed of 50% of its equity interest in BJCA at a consideration of RMB2,750,000 and resulted in a gain on disposal of RMB250,000. The Group has then further contributed RMB7,340,000 to the registered capital of BJCA. As a result, BJCA became an 46.7% associate of the Group. The net assets of the subsidiary at the date of disposal were as follows:

	2004
	RMB'000
Property, plant and equipment	2,908
Inventories	724
Trade and other receivables	2,877
Amount due from customer for contract work	900
Bank balances and cash	5,443
Trade and other payables	(3,535)
Minority interests	(664)
	<hr/>
	8,653
Gain on disposal	250
	<hr/>
Total consideration	8,903
	<hr/> <hr/>
Satisfied by:	
Cash	2,750
Interest in an associate	2,000
Amount due from an associate	2,680
Dividend receivable	1,473
	<hr/>
	8,903
	<hr/> <hr/>
Net cash outflow arising on disposal:	
Cash consideration	2,750
Bank balances and cash disposed of	(5,443)
	<hr/>
	(2,693)
	<hr/> <hr/>

This subsidiary was disposed in January 2004 and did not contribute to the Group's net cash inflows, revenue and net loss for the period from 1st January, 2004 up to the effective date of disposal.

Notes to the Financial Statements

For the year ended 31st December, 2004

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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Land and buildings				
Within one year	10,588	11,155	9,793	9,565
In the second to fifth year inclusive	2,694	13,651	1,965	10,603
After five years	980	–	980	–
	14,262	24,806	12,738	20,168
Cable network				
Within one year	924	3,162	924	3,162
In the second to fifth year inclusive	2,852	80	2,852	80
	3,776	3,242	3,776	3,242

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

Notes to the Financial Statements

For the year ended 31st December, 2004

25. Capital commitments

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	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	68,611	1,144	68,611	1,144
– investment (note)	56,000	56,000	56,000	56,000
	124,611	57,144	124,611	57,144

Note: On 23rd January, 2003, the Company entered into an agreement with CNC Beijing Communication Corporation (“CNC Beijing”), a controlling shareholder of a promoter of the Company, 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 integration 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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2004

27. Connected transactions

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

Name of connected company	Nature of transactions	Notes	THE GROUP	
			2004 RMB'000	2003 RMB'000
CNC Beijing	Dedicated circuit leasing			
	services paid	(a)	9,698	7,823
	Information port connection			
	services paid	(b)	–	6,084
	Telephone related services paid	(c)	361	444
Capnet	Comprehensive services			
	income received	(d)	6,677	6,290
Beijing IC Design Park Co., Ltd.	Rental paid for office premises	(e)	3,981	2,986

- (a) In April 2001, the Group entered into an agreement with 北京市電信公司營業局 (CNC Beijing Communication Business Bureau) (“BB-BTC”), a department under CNC Beijing in which BB-BTC has agreed, inter alia, to lease to the Group local dedicated circuits. On 9th July, 2004, the Company and BB-BTC entered into a renewal agreement for further extending the term of the agreement to expire on 30th June, 2005.
- (b) In November 2000, the Group entered into an agreement with BB-BTC 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. In 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.

Notes to the Financial Statements

For the year ended 31st December, 2004

27. Connected transactions (continued)

- (c) CNC Beijing provided the Group with telephone and other telephone related services in both years.
- (d) In August 2001, the Company entered into a comprehensive services agreement with Capnet, a subsidiary of BSAM, in which 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.
- (e) 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 ending 31st December, 2005.
- (f) 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 BJCA to BSAM at a consideration of RMB2,750,000. The Company also entered into another agreement with BSAM and a third party under which, the Company, BSAM and that party contributed RMB7,340,000, RMB7,500,000 and RMB160,000 respectively to the registered capital of BJCA. After the arrangement, the registered capital of BJCA was increased from RMB5,000,000 to RMB20,000,000 and percentage of equity interests in BJCA held by the Company was changed from 90% to 46.7%.

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

Notes to the Financial Statements

For the year ended 31st December, 2004

28. Contingent liabilities

During the year, there was a claim of approximately RMB14,000,000 from a supplier against the Group as the compensation for the cost and loss arising from the suspension of a material supply contract. Based on the advice from the Group's legal consultant, the directors are of the opinion that the Group has strong grounds to defend against the claim and will defend the case vigorously. The directors believe that the Group will be able to recover the loss, if any, from its customer since the suspension of the material supply contract was arising from the customer's request to suspend its contract with the Group. Therefore, the directors are of the view that the Group is not expected to suffer any significant loss in this litigation and no provision has been made in the financial statements.

During the year, there was a claim of approximately RMB28,000,000 from a contractor against the Group for the suspension of a contract of RMB8,400,000 regarding development and maintenance of intellectual properties of an e-Government information system. The remaining consideration payable by the Company for such service under the contract amounted to RMB6,300,000. On 9th December 2004, a judgement was handed down by First Intermediate Court of Beijing of the PRC, and the judge found in favour of the contractor and the Company was ordered to pay damages of approximately RMB14,280,000. An appeal was lodged by the Company on 23rd December, 2004. Based on the advice of the Group's legal consultant, the directors are of the opinion that except for the remaining consideration mentioned above, other amount claimed is irrelevant to the contract. In addition, the directors are of the opinion that the contractor failed to perform its obligations under the contract and therefore the Group has strong grounds to defend against the claim. No provision has been made in the financial statements.

Financial Summary

	Year ended 31st December,				
	2000	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	49,854	149,745	237,474	279,565	241,455
(Loss) profit before taxation	(6,153)	(9,376)	12,912	8,049	2,378
Taxation	–	(916)	(2,410)	(2,048)	(4,782)
(Loss) profit before minority interests	(6,153)	(10,292)	10,502	6,001	(2,404)
Minority interests	–	359	(483)	(52)	598
Net (loss) profit for the year	(6,153)	(9,933)	10,019	5,949	(1,806)

	As at 31st December,				
	2000	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	356,651	777,407	703,853	661,981	643,349
Total liabilities	(14,619)	(257,517)	(163,755)	(113,882)	(98,218)
Minority interests	–	(4,060)	(492)	(2,544)	(1,282)
Capital and reserves	215,032	515,830	539,606	545,555	543,749

Note:

- (a) The result for the year ended 31st December, 2000 which was 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 the year.
- (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 Friday, 24th June, 2005 at 9:30 a.m. for the following purposes:

As ordinary resolutions

1. To consider and approve the supervisors’ report for the year 2004;
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, 2004;
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

31st March, 2005

Notes:

1. The register of shareholders of the Company will be closed from 25th May, 2005 (Wednesday) to 23rd June, 2005 (Thursday) (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 24th May, 2005 (Tuesday) 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 at Hong Kong Registrars Limited of 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 at Hong Kong Registrars Limited of 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 4th June, 2005 (Saturday). The reply slip may be delivered by hand or by post.