CAPINFO

Capinfo Company Limited

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

(Stock Code: 8157)

ANNUAL REPORT 2005

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.

Contents

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 *(Chairman)* (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

In 2005, the Group focused on innovation of services by business consolidation and adjustment of organisational structure, continued to expand the market outside Beijing, widened its scope of new business, and fully capitalised on its brand in the provision of integrated services. Growth in its operating results was steady.

With steady operation of its existing business, the Group continued to make further development, including: delivery of Beijing Medical Insurance Information System in phases upon inspection, completion of the restructuring work of Beijing exclusive e-government Network. A number of projects were also undertaken, such as Beijing Crisis Commanding System Cross-network【北京市應急指揮系統聯網】, restructuring of Beijing State Government House network【北京市政府大院網路】, and Phase II of Beijing Confidential Network【北京市機要網】.

In developing its business, the Group has also strengthened technical innovation and product development in relation to proprietary intellectual property rights. During the year, 12 software products were granted registration certificate for copyrights of computer software from the National Copyright Bureau. The Group continued to optimize internal management, and obtained a series of awards and qualifications, such as the passing of Quality Assurance for "Grade CMMI2" and re-assessment of ISO 9001 Quality Control System, as well as being awarded again with the Grade I Quality Assurance for Computer Information Systems Integration.

In light of keener competition in the informatization market during the past few years, the Group made use of its advantage in platform resources to enhance its large scale, standardized IT services capability. Grasping the opportunities brought forward by the Olympics era, the Group has been proactive in opening up the market in areas of information services in order to sustain growth in its operation and healthy development of its business. As Beijing Olympic Games 2008 approaches and the acceleration in the construction of the informationalised capital, there are unprecedented development opportunities for us to capture.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders and any other parties for their full support to Capinfo as well as to every member of staff for continuous effort during the year.

Dr. CHEN Xinxiang
Chairman

Beijing, the People's Republic of China,
24th March, 2006

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, 2005, the Company and its subsidiaries (collectively the "Group") recorded an audited turnover of approximately RMB254.2 million, representing an increase of approximately 5% over that of last year, and a gross profit margin of 26%, as compared with 28% for last year. The Group has attained an audited profit attributable to equity holders of the parent of approximately RMB4.3 million for the year under review as against loss attributable to equity holders of the parent of approximately RMB1.8 million last year.

During the year under review, the Group devoted more resources on research and development, thus increased its research and development expenses. On the other hand, the Group exercised more stringent control on expenses, which resulted in a decrease in selling expenses for the year, and in turn, it attained profit attributable to the equity holders of the parent for the year under review as compared to loss attributable to the equity holders of the parent in the last year.

Other operating income mainly included government grants increased in the year under review.

The Group's current ratio, defined as total current assets over total current liabilities, maintained at a relatively high level of over 4.0 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, 2005, the Group had unsecured borrowings of RMB10 million, bear interests of average interest rate of 2.55%, out of which RMB7 million will mature within 1 year and RMB3 million will mature within 2-5 years from 31st December, 2005. Cash and bank deposits of the Group as at 31st December, 2005 were mainly derived from shareholders' contribution and working capital generated from operations.

As at 31st December, 2005, the Group had no assets pledged and had no significant contingent liabilities.

As at 31st December, 2005, the Group had capital commitment of approximately RMB157.3 million.

Management Discussion and Analysis

In 2004, a claim of RMB28,000,000 was raised by 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 (inclusive of the remaining consideration of RMB6,300,000). The directors are of the opinion that the contractor failed to perform its obligations under the contract and an appeal was lodged by the Company on 23rd December 2004. Provision for the claim has been made as at 31st December 2005 at the directors' best estimate based on evidence available up to the report date.

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

Business Review

During the year under review, the Group has taken every opportunity to foster a steady growth in its operation and achieved encouraging results. On top of its healthy development based on its decisive advantage, the Group has actively expanded into new areas of operation in an effort to further improve its competitive edge.

Foundation Business

Medical Insurance System

During the year under review, the Group adhered to the principle of Perfect, Steady, Safe and Development in the operation of its system as directed by the government of Beijing city and operated steadily. At present, the system is providing steady and safe support to the handling of medical insurance for over 5 million people. The system efficiently processed contributions to various medical insurance fund, verification and settlement for medical insurers around the city, handling medical fees under medical insurance, and checking and settling outpatient fees and related services, which powerfully supported the reform of Beijing city's medical insurance system. During this period, the medical insurance system passed various tests and assessment conducted by the Beijing City Office of Informatisation Works (北京市訊息化工作辦公室) and the Beijing City Finance Bureau with outstanding performance. Hence, smoothness in the next phase of development can be ensured.

Management Discussion and Analysis

e-Community Business

During the year under review, Beijing City's community service network system entered its second year of full operation. The Group continued to refine the construction of its system, enhanced its function and strictly followed the procedures for standardized service management. During the year, the Group jointly launched a test run of the first phase of the community prevention and control network (社區防控網) with the Population Division (人口處) of Beijing City Public Security Bureau for which the two parties exchanged and compared data in relation to the community population and the public security workforce. This has set the formation for a change of the application of the community system into high-end IT service for city management.

e-Government Private Network

During the year under review, the extent of optical cables for the e-government private network exceeded 1,000 km, supporting over 40 sets of virtual private networks for horizontal and vertical operation and connecting 1,000 units. This proved the advantage of capitalizing on Capinfo's platform to establish an exclusive e-government network. Satisfactory results were achieved in this respect.

Call Centre Business

During the year under review, growth in the development of the Group's call centre business was relatively fast with the number of received telephone enquiries topping 150,000 which was significantly higher than the same period of the previous year. Income also increased significantly when compared with the same period last year. With the Olympics 2008 era approaching, the Group will be actively securing quality call service for Olympics related projects.

Electronic Payment Business

During the year under review, electronic payment business sustained rapid growth with significant rise in transaction volume, the number of contracted business users and usage by members. During the year, Capinfo Easy-Pay linked up with Lenovo, Sun TV and other parties. Beijing Education Examinations Authority made use of Capinfo Easy-Pay and realized online payment of examination fees with regard to public English examination, adult examination, postgraduate students enrollment examination as well as doctorate candidate examination for Nankai University and Beijing University of Aeronautics and Astronautics.

Management Discussion and Analysis

Business Development

In 2005, on the basis of assuring a stable operation of its existing business, the Group has further consolidated resources from different areas. More efforts were devoted to market exploration. During this period, the Group received several new orders, at the same time, the IT services business also demonstrated new trends of progress.

City management information platform

During the year under review, the Group actively developed its IT services business, and achieved outstanding progress in the city infrastructural management projects. The Group undertook the task of constructing "Management information platform system for a city-level city in Beijing", and established a consolidated municipal management platform which primarily deals with the problems generated by the events and components in city management. The basic working procedures of the platform are receipt, distribution, handling and feedback. By establishing informatisation in city management system for eight districts in Beijing, separate and independent supervising and commanding centres for managing the city are formed, for which the ultimate objective of establishing a network with public services enterprises in other government authorities in Beijing can be achieved. Upon the completion of such platform system, the model of city management will be changed, which will have far-reaching effect to the existing management structure and mechanism.

Crisis Commanding Centres

During the year under review, the Group was devoted to providing solutions to crisis commanding system, as well as integration services, through the establishment of a highly intelligent commanding system primarily for commanding deployment, which combined information, images and voice, for the customers. The construction of Beijing Crisis Commanding Centre and Beijing Informationalised City Management System Commanding Centre have already completed, the Crisis Commanding Centres in Tongzhou District and Daxing District, Beijing are currently under construction.

Management Discussion and Analysis

During the year under review, Chongqing Hongxin Company Limited (重慶宏信軟件有限責任公司)("Chongqing Hongxin") (a subsidiary of the Group) has recorded results with a welcoming growth. The sales performance of「極光商智」business intelligence software developed by Chongqing Hongxin has made obvious improvement. A number of companies in different sectors have successfully adopted such software, and orders were obtained from companies including Huawei Technologies Co., Ltd. in Shenzhen(深圳華為公司), Shanghai Wicresoft (Hankao)(上海微創(漢高)). The business intelligence solutions of Chongqing Hongxin has already been included in the First Collections of business intelligence solutions by Microsoft in 2005. "Games Network Platform"【遊戲網路平臺】currently being developed by Chongqing Hongxin has obtained fund support by the Ministry of Information Industry of the PRC for major tender package.

Investment

To further expand into the community service market of Beijing, the Group invested RMB250,000 in establishing a joint venture, Beijing Dajia Tiandi Community Services Co., Ltd (北京市大家天地社區服務有限公司), with Beijing Community Service Association (北京市社區服務協會) in November 2005. The joint venture, which is 25% owned by the Group, plans to pool community service resources and to become an outside contractor of government projects regarding community services in Beijing city as well as a leading market operator.

In November 2005, the Group acquired 23% shareholding in Ziguang Information Industry Investment Co., Ltd. (紫光信業投資股份有限公司) ("Ziguang Information") for a consideration of RMB7.45 million. The principal business of Ziguang Information concentrates on smart card service and system integration which should well complement the Group's operation and initiate collaboration in a number of areas.

The Group had been one of the shareholders of Beijing Zhongguancun Information Engineering Co., Ltd (BZIE) which underwent asset reorganization during the period under review. Since the return on net assets from BZIE had been relatively low, the Group considered it a favourable occasion to dispose of its interests in BZIE upon BZIE's reorganisation. Thus, the Group disposed of its entire shareholding in BZIE for a total consideration of RMB17.58 million and generated a profit of approximately RMB2.58 million.

Management Discussion and Analysis

Research and Development

During the year under review, projects undertaken by the Group, Multi-lingual intelligent information service network system for the Olympic Games – research on key technologies and demonstration system (奧運多語言智能信息服務系統關鍵技術及示範系統研究) under the State's 863 project and the Integrated public information service system based on mobile interaction (基於手機互動的公眾綜合信息服務系統) as a key project of Beijing city technology plan (北京市科技計劃) were concluded and accepted at the end of the year. The commercialization of CityGuide-Beijing and marketing pilot project (CityGuide-Beijing 產品化及市場推廣試點項目) also substantially achieved its target by the end of the year. To accomplish the objective of Applying the multi-lingual results in the Olympics and to serve market needs (將多語言成果應用於奧運、服務於市場), the Group formulated and promoted the Integrated information service for the Olympic Games (奧運綜合信息服務) project which was confirmed by the 29th Olympic Games Organizing Committee. At the same time, the new theme of Key technologies and core platforms for the Olympics integrated information service (奧運綜合信息服務關鍵技術及核心平臺) obtained approval and support from the State's 863 project, the State's technology task plan (國家科技攻關計劃) and Technology for the Olympics special project (科技奧運專項) under the Beijing city technology plan (北京市科技計劃). All of these achievements laid a solid base for the next phase of work.

Future Prospects

Under the premises of stable operation of its platform resources, the Group will continue to enhance its service provision capacity and to capitalize on its technological advantage, to open up market opportunities, to further fulfill its functions and to foster continuous growth in its core operations. With opportunities arising from the 2008 Olympics, the Group will strengthen its corporate governance and human resources management, take full advantage of its associates as well as establish and perfect its image as an IT service provider, all aimed to develop the competitive edge of Capinfo.

Employees

Professionals are the Group's precious assets. As at 31st December 2005, the Group had 542 employees as against 422 at the end of 2004. Remuneration was determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employees. Discretionary bonuses based on individual performance were paid to employees as recognition of their contribution. Other benefits included retirement benefits and share options. During the year under review, total staff cost was approximately RMB52.0 million (2004: RMB40.4 million).

Directors, Supervisors and Senior Management

Executive Directors

Dr. CHEN Xinxiang (陳信祥博士), aged 63, 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 37, 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 52, 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 48, 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 41, 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 65, 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 45, became a non-executive Director in July 2001, and is currently the deputy general manager of China Netcom Corporation Beijing Branch. Mr. Qi graduated from Hong Kong University of Science and Technology with a master degree in international business management for senior executives. He has extensive experience in corporate management, economic management and financial 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, deputy general manager of Beijing Telecom Company, deputy general manager of Beijing Communication Corporation, and deputy general manager of China Netcom Corporation Beijing Branch.

Mr. PAN Jiaren (潘家任先生), aged 65, 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 40 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 deputy director 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 a director 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 60, 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 50, 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 43, joined the Group in July 2003 as a non-executive Director and is currently the 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 35, 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 10 years of experience in corporate operation and management.

Mr. BAI Li Ming (白利明先生), aged 32, 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 has been engaged in investment and asset management work since then. He has 5 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 43, 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, Qin Jia Yuan Media Services Company Limited, Stockmartnet Holdings 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 48, 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 31, 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 7 years of experience in operation and management.

Qualified Accountant and Company Secretary

Mr. LO Wai Tat, Andrew (盧偉達先生), aged 33, 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 54, a Supervisor of the Company. She was appointed a supervisor of the Company on 25th 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 30, a Supervisor of the Company. Mr. ZHANG joined the board of supervisors of the Company on 30th 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 33, a Supervisor of the Company. He joined the Company in April 1999 and was appointed as a supervisor of the Company on 30th 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 69, joined the Company in January 1998. He was appointed as a director as well as the president of CIHC in January 1998. In July 2001, he resigned from the position of executive director and president of the Company due to his senior age. He is currently the chief officer in charge of the Beijing Network Multimedia Research Laboratory. Mr. Lu graduated from the faculty of Electrical Engineering of Tsinghua University in 1958. Prior to joining the Company, Mr. Lu was the Deputy Manager of the Associated Office of the State Council Office of Digitalisation, Chairman of the Board of Jitong Company and Manager of The Office for the Promotion Beijing Electronic Industry. Mr. Lu has over 40 years of management and administration experience.

Mr. SHAO Jianping (邵建平先生), aged 53, 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 61, 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 54, 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 70, 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).

Corporate Governance Report

Compliance with the Code on Corporate Governance Practices

The Company is committed to achieving and maintaining statutory and regulatory standards and adherence to the principles of corporate governance. The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the year under review.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

Board of Directors and Board Meeting

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the section under heading "Directors, Supervisors and Senior Management".

The Board of Directors held 6 board meetings during the year under review.

Details of the attendance of the board of Directors are as follows:–

Directors	**Attendance**
Executive Directors	
Dr. Chen Xinxiang *(Chairman)*	6/6
Dr. Wang Xu *(Chief Executive)*	6/6
Ms. Zhang Yan *(Vice Chief Executive)*	6/6
Dr. Wu Bo *(Vice Chief Executive)*	5/6
Non-executive Directors	
Mr. Li Minji	0/6
Mr. Xing Dehai	6/6
Mr. Xu Zhe	3/6
Mr. Bai Liming	6/6
Mr. Qi Qigong	3/6
Mr. Pan Jiaren	4/6
Mr. Ye Yongdong	6/6
Mr. Lu Dongtao	0/6
Ms. Tan Guoan	1/6

Corporate Governance Report

Directors	**Attendance**
Independent Non-executive Directors	
Mr. Wong Ying Ho	2/6
Mr. Ng Kin Fai, Francis	6/6
Mr. Liu Dongdong	5/6

The board of Directors, which currently comprises sixteen Directors, is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to chief executive, vice-chief executives and the management.

Chairman and chief executive

The chairman and chief executive of the Company are segregated and are not exercised by the same individual.

Terms of appointment of non-executive Directors

The term of the existing appointment of Mr. Li Minji, Mr. Xing Dehai and Mr. Liu Dongdong commenced on 28th September 2004 while the term of the existing appointment of Mr. Xu Zhe, Mr. Bai Liming, Mr. Qi Qigong, Mr. Pan Jiaren, Mr. Ye Yongdong, Mr. Lu Dongtao, Ms. Tan Guoan, Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis commenced on 1st July 2003. All of their existing appointments will expire on 30 June 2006 and will be continued thereafter subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

Remuneration of Directors

The Company established a remuneration committee in March 2003. The Chairman of the committee is Mr. Wong Ying Ho and other members include Dr. Chen Xinxiang, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong. Dr. Chen Xinxiang is the Chairman and executive Director of the Company while the other three committee members are independent non-executive Directors of the Company.

The primary role and function of the remuneration committee included (i) the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors; and (ii) to make recommendation to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Corporate Governance Report

The remuneration committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

No meeting has been held in 2005 to review the remuneration packages of Executive Directors and the Director's fees of the independent non-executive Directors, which are nominal by market standards, as the Company did not see a need to review them during the year under review.

Nomination of Directors

It is the board of Directors' responsibilities in relation to nomination of Directors (i) to review the structure, size and composition of the Board; (ii) identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' meeting in relation to appointment and re-appointment of Directors of the Company.

A board meeting was held in November 2005 in relation to proposal of appointment and resignation of a non-executive Director.

During the meeting, the board of Directors considered and resolved to convene an extra-ordinary general meeting to be held on 31 March 2006 to approve the proposed appointment of Mr. Xia Peng as a non-executive Director and the proposed resignation of Mr. Lu Dongtao as a non-executive Director of the Company. Details of the aforesaid proposed appointment and resignation have been disclosed in the announcement and circular of the Company dated 15 November 2005 and 7 December 2005 respectively.

Auditors' Remuneration

During the year under review, the Company has paid to the external auditor of the Company, Deloitte Touche Tohmatsu, approximately RMB620,000 and RMB180,000 for audit service fee and non-audit service fee respectively. The major non-audit service provided by the external auditor was reviewing quarterly results of the Company.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Wong Ying Ho, Kennedy.

Corporate Governance Report

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Wong Ying Ho, Kennedy	4/4
Mr. Ng Kin Fai, Francis	4/4
Mr. Liu Dongdong	4/4

All of the Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Directors' and Auditors Responsibilities for Accounts

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 31.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31st December, 2005.

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 36 to the financial statements.

Results

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 32 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31 December 2005.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

Property, Plant and Equipment

During the year, the Group incurred an aggregate of approximately RMB40.4 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 13 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
Mr. Xing Dehai
Mr. Xu Zhe
Mr. Bai Liming
Mr. Qi Qigong
Mr. Pan Jiaren
Ms. Tan Guoan
Mr. Ye Yongdong
Mr. Lu Dongtao

Independent non-executive directors:

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

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.

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.

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (CAP.571 OF THE LAWS OF HONG KONG)(THE "SFO")

a. *Directors and Chief Executive of the Company*

Save as disclosed below, as at 31st December, 2005, none of the Directors, and chief executive of the Company had any interest and short position in 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

	Number of H Shares subject to options outstanding at 31st December, 2005			
Name	Granted under Pre-IPO Share Option Plan	Granted under Share Option Scheme	Total	Percentage to the issued H share capital
Directors				
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 (the "Pre-IPO Options") granted under the pre-IPO share option plan of the Company (the Pre-IPO Share Option Plan") were granted on 6th December, 2001 at RMB1 per grant with an exercise price of HK$0.48 per H Share. All these share options are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to 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 ("Share Options") granted under the share option scheme of the Company ("Share Option Scheme") were granted on 17th August, 2004 at RMB1 per grant with an exercise price of HK$0.41 per H Share. These share options are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to 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 executive 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 31 December 2005:

Name of shareholder	Number of shares	Nature of interests	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, 2005:

Name	Equity interests held in members of the Group (other than the Company)	Nature of interests	Approximate percentage
Business Incubator of Chongqing Hi-tech Industrial Development Zone	Chongqing Hongxin Software Company Limited	Beneficial owner	10%
Dongguan City Shilongzhen Industrial Company (東莞市石龍鎮工業總公司)	Dongguan City Longxin Information Development Company Limited (東莞市龍信信息發展有限公司)	Beneficial owner	40%

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.

COMPETING INTERESTS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries of 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 for the year ended 31st December 2005.

AUDIT COMMITTEE

An audit committee was established on with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee comprise three independent non-executive directors, namely Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong. Mr. Wong Ying Ho, Kennedy is the Chairman of the audit committee. During the year, 4 audit committee meetings were held. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The Group's audited results for the year ended 31 December 2005 have been reviewed by the audit committee, which was of the view that the preparation of the financial statements were in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements.

Directors' Report

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period under review, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 35(i) 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 35(i) 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 except for the continuing connected transaction in relation to leasing of office premise as disclosed in the announcement of the Company dated 14th March, 2006.

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.

Directors' Report

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 76% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 29% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 71% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 20% 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.

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,
24th March, 2006

Supervisors' Report

To all shareholders,

In 2005, in accordance with the Company Law, the 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 duties, attended the Board meetings, closely supervised over the Company's operation and financial status as well as its management, in an effort to protect shareholders' interests.

In 2005, the Supervisory Committee held four meetings and participated in Board meetings tp gain in-depth knowledge on the management's decision-making process. It regularly reviewed the Company's financial statements and reports, vigorously interacted with the management on relevant issues with feasible proposals.

During the year, in accordance with relevant laws, regulations and the Articles of Association, the Supervisory Committee supervised the conducts of Directors and senior management, as well as the operational and regulatory regime. It also monitored the procedures of convening shareholders' meeting, Board meetings resolutions passed at the meetings and then implementation. The Supervisory Committee is of the view that the decision-making procedures of the Company were legal and the internal control system was basically sound. So far as the Supervisory Committee is aware, during the year, each Director and other senior management have complied with the relevant requirements of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange Company Limited and those of the China Securities Regulatory Commission, and there is no violation of any applicable laws, regulations or the Articles of Association.

The Supervisory Committee has duly analyzed the Company's financial statements for 2005. The Supervisory Committee is of the view that, during the period, a sound accounting policy was followed in line with the current State laws and regulations and those of the place of listing. It has strictly adhered to the Company's financial management and internal control systems. The 2005 financial report has, in all major aspects, fairly reflected the Company's financial status and operating results.

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

By order of the Supervisory Committee

Ms. Liu Jian
Chairman of the Supervisory Committee
Beijing, The People's Republic of China
24th March 2006

Auditors' Report

Deloitte.
德勤

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 consolidated financial statements of Capinfo Company Limited (the "Company") and its subsidiaries (collectively the "Group") on pages 32 to 87 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong, 24th March 2006

Consolidated Income Statement

For the year ended 31st December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Turnover	6	**254,187**	241,455
Cost of sales		**(188,526)**	(174,370)
Gross profit		**65,661**	67,085
Other income		**21,864**	11,499
Research and development costs		**(21,173)**	(17,188)
Marketing and promotional expenses		**(9,171)**	(13,820)
Administrative expenses		**(46,174)**	(39,631)
Interest on other loan wholly repayable within five years		**(255)**	(289)
Share of losses of associates		**(2,398)**	(4,037)
Share of loss of a jointly controlled entity		**(806)**	(1,491)
Gain on disposal of a subsidiary		**–**	250
Profit before tax	7	**7,548**	2,378
Income tax expense	10	**(3,118)**	(4,782)
Profit (loss) for the year		**4,430**	(2,404)
Attributable to:			
Equity holders of the parent		**4,332**	(1,806)
Minority interests		**98**	(598)
		4,430	(2,404)
Earnings (loss) per share – Basic	12	**0.15 cents**	(0.06 cents)

Consolidated Balance Sheet

At 31st December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	13	**141,446**	165,029
Interests in associates	14	**32,932**	26,370
Interest in a jointly controlled entity	15	**1,151**	1,957
Non-trading securities	16	**–**	16,350
Available-for-sale investments	17	**1,350**	–
Goodwill	18	**–**	–
Deposits paid on acquisition of property, plant and equipment		**10,340**	658
		187,219	210,364
Current assets			
Inventories	19	**17,005**	19,766
Amounts due from customers for contract work	20	**27,579**	17,973
Trade and other receivables	21	**46,713**	104,773
Amounts due from associates and a jointly controlled entity	35	**1,182**	4,670
Bank balances and cash		**396,562**	285,703
		489,041	432,885
Property, plant and equipment held for sale	22	**1,265**	–
		490,306	432,885
Current liabilities			
Trade and other payables	23	**96,922**	61,275
Customers' deposits for contract work		**13,247**	22,012
Taxation payable		**4,597**	4,931
Current portion of other loan	24	**7,000**	4,000
		121,766	92,218
Net current assets		**368,540**	340,667
		555,759	551,031

Consolidated Balance Sheet

At 31st December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Capital and reserves			
Share capital	25	**289,809**	289,809
Reserves	27	**258,272**	253,940
Equity attributable to equity holders of the parent		**548,081**	543,749
Minority interests		**4,678**	1,282
Total equity		**552,759**	545,031
Non-current liabilities			
Other loan	24	**3,000**	6,000
		555,759	551,031

The financial statements on pages 32 to 87 were approved and authorised for issue by the Board of Directors on 24th March 2006 and are signed on its behalf by:

CHAIRMAN
Dr. Chen Xinxiang

VICE CHIEF EXECUTIVE
Ms. Zhang Yan

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Attributable to equity holders of the parent							
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated profits (losses)	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2004	289,809	254,079	550	275	842	545,555	2,544	548,099
Loss for the year (total recognised expense for the year)	–	–	–	–	(1,806)	(1,806)	(598)	(2,404)
Disposal of a subsidiary	–	–	–	–	–	–	(664)	(664)
Profit appropriations	–	–	828	414	(1,242)	–	–	-
At 31st December 2004	289,809	254,079	1,378	689	(2,206)	543,749	1,282	545,031
Profit for the year (total recognised income for the year)	–	–	–	–	4,332	4,332	98	4,430
Capital contribution from minority owner of a subsidiary	–	–	–	–	–	–	800	800
Acquisition of a subsidiary	–	–	–	–	–	–	2,498	2,498
Profit appropriations	–	–	247	123	(370)	–	–	-
At 31st December 2005	**289,809**	**254,079**	**1,625**	**812**	**1,756**	**548,081**	**4,678**	**552,759**

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	2005	2004
	RMB'000	RMB'000
Operating activities		
Profit before tax	7,548	2,378
Adjustments for:		
Interest income	(1,705)	(1,776)
Interest expenses	255	289
Dividend income	(375)	–
Share of losses of associates	2,398	4,037
Share of loss of a jointly controlled entity	806	1,491
Gain on disposal of available-for-sale investments	(2,580)	–
Realised gain on investments held for trading	(1,834)	–
Impairment loss on goodwill	3,488	–
Depreciation	44,421	47,856
Loss on disposal of property, plant and equipment	609	251
Write down of inventories	8,312	2,698
Impairment loss / allowance for doubtful debts	4,890	2,262
Gain on disposal of a subsidiary	–	(250)
Amortisation of goodwill	–	104
Operating cash flows before movements in working capital	66,233	59,340
Increase in inventories	(5,551)	(6,851)
Decrease in amounts due from customers for contract work	19,370	36,795
Decrease (increase) in trade and other receivables	57,942	(20,946)
Increase in trade and other payables	20,739	4,084
Decrease in customers' deposits for contract work	(8,765)	(19,067)
Cash generated from operations	149,968	53,355
PRC income tax paid	(3,452)	(1,928)
Net cash from operating activities	146,516	51,427

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Investing activities			
Interest received		**1,705**	1,776
Dividend received from available-for-sale investments		**375**	–
Dividend received from a former subsidiary		**–**	1,473
Purchase of property, plant and equipment		**(50,047)**	(18,622)
Proceeds from disposal of property, plant and equipment		**288**	252
Purchase of investments held for trading		**(360,000)**	–
Proceeds on trading of investments held for trading		**361,834**	–
Proceeds from disposal of available-for-sale investments		**8,966**	–
Acquisition of a subsidiary	28	**4,413**	–
Disposal of a subsidiary	29	–	(2,693)
Capital contributions to associates		**(7,224)**	(7,340)
Decrease in amounts due from associates and a jointly controlled entity		**3,488**	147
Increase in bank deposits for investing purpose		**(10,555)**	(1,846)
Net cash used in investing activities		**(46,757)**	(26,853)
Financing activities			
Interest paid		**(255)**	(289)
Capital contributions from minority owner of a subsidiary		**800**	–
Net cash from (used in) financing activities		**545**	(289)
Net increase in cash and cash equivalents		**100,304**	24,285
Cash and cash equivalents at 1st January		**232,703**	208,418
Cash and cash equivalents at 31st December		**333,007**	232,703
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**396,562**	285,703
Less: Bank deposits for investing purpose		**(63,555)**	(53,000)
		333,007	232,703

Notes to the Financial Statements

For the year ended 31st December 2005

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 addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required. The impact of these changes in accounting policies is discussed in details as below.

Business combinations

In the current year, the Group has applied HKFRS 3, *Business Combinations*, which is effective for business combinations for which the agreement date is on or after 1st January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Notes to the Financial Statements

For the year ended 31st December 2005

2. Application of Hong Kong Financial Reporting Standards (continued)

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January 2005 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised and included in the investment cost of the relevant associates, the Group on 1st January 2005 eliminated the carrying amount of the related accumulated amortisation of approximately RMB104,000 with a corresponding decrease in the investment cost of the associate (see note 14). The Group has discontinued amortising such goodwill from 1st January 2005 onwards.

As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. This change in accounting policy has resulted in an increase in profit of approximately RMB117,000 for the year. Comparative figures for 2004 have not been restated.

Share-based payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. The relevant transitional provisions require HKFRS 2 to be retrospectively applied to share options that were granted after 7th November 2002 and had not yet vested on 1st January 2005. The Group did not have any such share options at 1st January 2005 and no share options have been granted since then. The Group has not recognised the financial effect of those share options granted after 7th November 2002 and vested before 1st January 2005.

Notes to the Financial Statements

For the year ended 31st December 2005

2. Application of Hong Kong Financial Reporting Standards (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. There are no material impacts from the implementation of HKAS 32, and the principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt or equity securities previously accounted for under the alternative treatment of SSAP 24

Until 31st December 2004, the Group classified and measured its investments in equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January 2005 onwards, the Group classifies and measures its investments in equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Notes to the Financial Statements

For the year ended 31st December 2005

2. Application of Hong Kong Financial Reporting Standards (continued)

Debt or equity securities previously accounted for under the alternative treatment of SSAP 24 (continued)

The adoption of HKAS 39 has had no material effect for the prior and current accounting periods. On 1st January 2005, the Group reclassified its "non-trading securities" to "available-for-sale financial assets" upon the initial application of HKAS 39. The Group's available-for-sale investments, which represents investments in unlisted equity securities, are measured at cost less impairment since fair value of such investments cannot be reliably measured. No adjustment has been made to the Group's retained earnings as a result of such reclassification.

At the date of authorisation of these consolidated financial statements, the following new HKFRS, amendments and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*[4]

1 Effective for annual periods beginning on of after 1 January 2007
2 Effective for annual periods beginning on of after 1 January 2006
3 Effective for annual periods beginning on of after 1 December 2005
4 Effective for annual periods beginning on of after 1 March 2006

Notes to the Financial Statements

For the year ended 31st December 2005

2. Application of Hong Kong Financial Reporting Standards (continued)

Debt or equity securities previously accounted for under the alternative treatment of SSAP 24 (continued)

The directors anticipate that the adoption of these HKFRS, amendments and interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet as an intangible asset. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate or jointly controlled entity.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary and jointly controlled entity is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Goodwill on acquisition of associates is assessed for impairment loss whenever there is any indication that the investment may be impaired.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Investments in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

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

Installation contracts

When the outcome of a contract for the installation of network systems can be estimated reliably, revenue and costs are recognised with reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for the work performed to date bear to estimated total costs, except where there would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Installation contracts (continued)

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. 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.

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. Government grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as "other income".

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.

Construction in progress is stated at cost which includes all construction costs less accumulated impairment losses. It is not depreciated until completion of construction. 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 cost of leasehold improvements is depreciated on a straight-line basis over the period of the respective leases and after taking into account their estimated residual value.

Notes to the Financial Statements

For the year ended 31st December 2005

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 and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement 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.

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Notes to the Financial Statements

For the year ended 31st December 2005

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 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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 based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, 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 2005

3. Significant Accounting Policies (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Leasing

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. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Retirement benefit costs

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from associates and a jointly controlled entity, amounts due from customers for contract work and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories set out above. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including customers' deposits for contract work, other borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31st December 2005

3. Significant Accounting Policies (continued)

Derecognition (continued)

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payment transactions

The fair value of services received from employees and determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings as appropriate.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, other than goodwill and available-for-sale equity investments, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Notes to the Financial Statements

For the year ended 31st December 2005

4. Key Sources of Estimation Uncertainty

The management had made the following estimates and assumptions in the process of applying the Group's accounting policies, which are described in note 3, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities as discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values of network equipment involve management's estimation regarding change in technology and customers' expectation regarding network infrastructure services to be provided by the Group. The Group assesses annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Provision

As at 31st December 2005, a provision in relation to litigation claim against the Company has been recognised in the Group's balance sheet. The provision is made at the directors' best estimate as to the outcome and financial effect based on evidence available up to the report date. If the final outcome differs from the original expectation, the provision may be adjusted in the future period.

Notes to the Financial Statements

For the year ended 31st December 2005

4. Key Sources of Estimation Uncertainty (continued)

Installation contracts

Revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion requires the management to estimate total contract costs expected to be incurred in completing contracts undertaken by the Group. The time taken and the cost ultimately incurred may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, disputes with sub-contractors, changes in the government's priorities and unforeseen problems and circumstances. Any of these factors may give rise to delays in completion of work or cost overruns or termination of contracts by the customers, which in turn may affect the stage of completion and therefore recognition of contract revenue and costs in the future period.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include available-for-sale investments, other borrowings, trade receivables, amounts due from associates and a jointly controlled entity, amounts due from customers for contract work and trade payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Financial Statements

For the year ended 31st December 2005

6. 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.

Business segments for the year are as follows:

	2005		2004	
	Turnover	**Results**	Turnover	Results
	RMB'000	**RMB'000**	RMB'000	RMB'000
e-Government technology services	**225,099**	**54,333**	217,161	44,252
e-Commerce technology services	**29,088**	**(24,454)**	24,294	(15,044)
	254,187	**29,879**	241,455	29,208
Other income		**21,864**		11,499
Central administrative expenses		**(40,736)**		(32,762)
Interest on other loan wholly repayable within five years		**(255)**		(289)
Loss from interests in associates engaged in other businesses		**(2,398)**		(4,037)
Loss from interest in a jointly controlled entity engaged in other business		**(806)**		(1,491)
Gain on disposal of a subsidiary		**–**		250
Profit before tax		**7,548**		2,378
Income tax expense		**(3,118)**		(4,782)
Profit (loss) for the year		**4,430**		(2,404)

Notes to the Financial Statements

For the year ended 31st December 2005

6. Business and Geographical Segments (continued)

Business segments (continued)

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 2005

7. Profit Before Tax

	2005	2004
	RMB'000	RMB'000
Profit before tax has been arrived at after charging:		
Directors' and supervisors' remuneration *(note 8)*	**1,643**	1,568
Other staff costs	**47,194**	35,914
Other staff's retirement benefit scheme contributions	**3,203**	2,929
	52,040	40,411
Less: Staff costs included in research and development costs	**(8,920)**	(6,103)
Staff costs included in contract work	**(8,059)**	(6,941)
	35,061	27,367
Depreciation	**62,727**	73,523
Less: Depreciation included in research and development costs	**(1,055)**	(771)
Depreciation included in contract work	**(18,306)**	(25,667)
	43,366	47,085
Operating lease rentals in respect of		
– cable network	**13,964**	11,137
– land and buildings	**9,493**	11,770
	23,457	22,907
Less: Operating lease rentals included in research and development costs	**(752)**	(1,354)
Operating lease rentals capitalised in contract work	**(6,204)**	(5,564)
	16,501	15,989
Net foreign exchange loss	**522**	90
Auditors' remuneration	**1,014**	647
Cost of goods sold	**52,954**	30,011
Loss on disposal of property, plant and equipment	**609**	251
Write down of inventories	**8,312**	2,698
Amortisation of goodwill (included in administrative expenses)	**–**	104
Impairment loss on goodwill (included in administrative expenses)	**3,488**	–
Impairment loss/allowance for doubtful debts	**4,890**	2,262
Share of tax of an associate (included in share of losses of associates)	**134**	–
and after crediting:		
Government grants	**14,691**	8,959
Interest income from bank deposits	**1,705**	1,776
Realised gain on investments held for trading	**1,834**	–
Dividend income from available-for-sale investments	**375**	–
Gain on disposal of available-for-sale investments	**2,580**	–

Notes to the Financial Statements

For the year ended 31st December 2005

8. Directors' and Supervisors' Emoluments

	2005	2004
	RMB'000	RMB'000
Fees		
– independent non-executive directors	**258**	225
– executive directors, other non-executive directors and supervisors	**–**	–
Other emoluments for non-executive directors	**–**	–
	258	225
Other emoluments for executive directors		
– basic salaries and allowances	**1,179**	1,169
– retirement benefit scheme contributions	**28**	20
	1,207	1,189
Other emoluments for supervisors		
– basic salaries and allowances	**172**	150
– retirement benefit scheme contributions	**6**	4
	178	154
	1,643	1,568

Notes to the Financial Statements

For the year ended 31st December 2005

8. Directors' and Supervisors' Emoluments (continued)

The emoluments paid or payable to each of the 19 (2004: 19) directors and supervisors were as follows:

		Other emoluments		
	Fees	Basic salaries and allowances	Retirement benefit scheme contributions	Total 2005
	RMB'000	RMB'000	RMB'000	RMB'000
Directors				
Dr. Chen Xinxiang	–	381	7	388
Dr. Wang Xu	–	292	7	299
Ms. Zhang Yan	–	253	7	260
Dr. Wu Bo	–	253	7	260
Mr. Li Minji	–	–	–	–
Mr. Xing Dehai	–	–	–	–
Mr. Xu Zhe	–	–	–	–
Mr. Bai Liming	–	–	–	–
Mr. Lu Dongtao	–	–	–	–
Mr. Pan Jiaren	–	–	–	–
Mr. Qi Qigong	–	–	–	–
Mr. Ye Yongdong	–	–	–	–
Ms. Tan Guoan	–	–	–	–
Mr. Wong Ying Ho, Kenndy	104	–	–	104
Mr. Ng Kin Fai, Francis	104	–	–	104
Mr. Liu Dongdong	50	–	–	50
Supervisors				
Ms. Liu Jian	–	–	–	–
Mr. Zhang Zhenlong	–	–	–	–
Mr. Cheng Huajun	–	172	6	178
	258	1,351	34	1,643

Notes to the Financial Statements

For the year ended 31st December 2005

8. Directors' and Supervisors' Emoluments (continued)

		Other emoluments		
			Retirement	
		Basic salaries	benefit scheme	Total
	Fees	and allowances	contributions	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Directors				
Dr. Chen Xinxiang	–	378	5	383
Dr. Wang Xu	–	289	5	294
Ms. Zhang Yan	–	251	5	256
Dr. Wu Bo	–	251	5	256
Mr. Li Minji	–	–	–	–
Mr. Xing Dehai	–	–	–	–
Mr. Xu Zhe	–	–	–	–
Mr. Bai Liming	–	–	–	–
Ms. Lu Dongtao	–	–	–	–
Mr. Pan Jiaren	–	–	–	–
Mr. Qi Qigong	–	–	–	–
Mr. Ye Yongdong	–	–	–	–
Mr. Tan Guoan	–	–	–	–
Mr. Wong Ying Ho, Kenndy	106	–	–	106
Mr. Ng Kin Fai, Francis	106	–	–	106
Mr. Liu Dongdong	13			13
Supervisors				
Ms. Liu Jian	–	–	–	–
Mr. Zhang Zhenlong	–	–	–	–
Mr. Cheng Huajun	–	150	4	154
	225	1,319	24	1,568

Notes to the Financial Statements

For the year ended 31st December 2005

9. Employees' Emoluments

The aggregate emoluments of the five highest paid individuals included two (2004: two) executive directors of the Company, whose emoluments are included in note 8 above. The aggregate emoluments of the remaining three (2004: three) highest paid individuals are as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries and allowances	**1,535**	1,763
Retirement benefit scheme contributions	**–**	–
	1,535	1,763

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.

10. Income Tax Expense

The Company is recognised as a new-technology enterprise according to PRC tax regulations and subject to PRC income tax at 15% (2004: 15%) of the estimated assessable profit for the year.

In addition, pursuant to an announcement made by the State Administration of Taxation dated 22nd July 2005, certain entities including the Company are granted a reduction of income tax rate to 10% for Year 2004 as an incentive and support to their software development activities in the PRC. As a result, an overprovision of income tax of approximately RMB1,594,000 for the year ended 31st December 2004 is recognised in the current year.

	2005	2004
	RMB'000	RMB'000
The charge (credit) comprises:		
PRC income tax		
Current	**4,712**	4,782
Overprovision in previous year	**(1,594)**	–
	3,118	4,782

Notes to the Financial Statements

For the year ended 31st December 2005

10. Income Tax Expense (continued)

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

	2005	2004
	RMB'000	RMB'000
Profit before tax	**7,548**	2,378
Tax at domestic income tax rate of 15% (2004: 15%)	**1,132**	357
Tax effect of expenses that are not deductible in determining taxable profit	**2,747**	2,698
Tax effect of income not taxable for tax purpose	**(275)**	–
Tax effect of tax losses of subsidiaries not recognised	**589**	898
Tax effect of share of profit of an associate	**(134)**	–
Tax effect of tax losses of associates and a jointly controlled entity not recognised	**653**	829
Overprovision in previous year	**(1,594)**	–
Tax expense for the year	**3,118**	4,782

At the balance sheet date, the subsidiaries have unused tax losses of approximately RMB16,000,000 (2004: RMB12,000,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire before 2010.

11. Dividend

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

12. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share attributable to equity holders of the parent is based on the profit for the year attributable to equity holders of the parent of RMB4,332,000 (2004: loss of RMB1,806,000) and 2,898,086,091 (2004: 2,898,086,091) shares in issue during the year.

Notes to the Financial Statements

For the year ended 31st December 2005

12. Earnings (Loss) Per Share (continued)

No diluted earnings (loss) per share has been presented in 2005 and 2004 because the exercise price of the Company's share options was higher than the average market price of the Company's shares for both years.

13. Property, Plant and Equipment

	Computer equipment RMB'000	Leasehold improvements RMB'000	Network equipment RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
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
Additions	6,379	929	32,315	471	271	–	40,365
Acquisition of a subsidiary	622	–	–	223	96	–	941
Disposals	(1,726)	–	(1,440)	(12)	–	–	(3,178)
Transfer to assets held for sale (note 22)	(1,410)	–	(2,784)	(5)	–	–	(4,199)
At 31st December 2005	85,125	18,310	350,595	4,587	694	500	459,811
Depreciation							
At 1st January 2004	52,141	4,349	132,106	841	15	–	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
Provided for the year	13,072	2,977	45,820	741	117	–	62,727
Eliminated on disposals	(1,444)	–	(826)	(11)	–	–	(2,281)
Transfer to assets held for sale (note 22)	(610)	–	(2,319)	(5)	–	–	(2,934)
At 31st December 2005	82,131	10,043	223,813	2,187	191	–	318,365
Net book values							
At 31st December 2005	2,994	8,267	126,782	2,400	503	500	141,446
At 31st December 2004	10,147	10,315	141,366	2,448	253	500	165,029

Notes to the Financial Statements

For the year ended 31st December 2005

14. Interests in Associates

	2005	2004
	RMB'000	RMB'000
Cost of unlisted investment in associates	**43,014**	36,076
Share of post-acquisition loss	**(10,082)**	(9,706)
	32,932	26,370

Details of the Group's associates, which are private limited companies established and operating in the PRC, at 31st December 2005 are as follows:

Name of associate	**Proportion of nominal value of registered capital held directly by the Company**	**Principal activities**
北京數字証書認證中心有限公司 (Beijing Certificate of Authority Center Company Limited, "BJCA") (note)	47.7%	Provision of services related to digital certificates
北京信用管理有限公司 (Beijing Credit Management Bureau Co., Ltd.) (note)	22.32%	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.) (note)	40%	Provision of information application services and related businesses
北京市大家天地社區服務有限公司 (Beijing Dajia Tiandi Community Service Company Limited)	25%	Provision of information and consultancy services

Notes to the Financial Statements

For the year ended 31st December 2005

14. Interests in Associates (continued)

Name of associate	Proportion of nominal value of registered capital held directly by the Company	Principal activities
紫光信業投資股份有限公司（前稱北京科瑞奇技術開發股份有限公司）(Ziguang Information Industry Investment Company Limited, formerly known as Beijing Courage Technology Development Company Limited, "Ziguang")	23%	Manufacture and sale of smart IC cards and provision of related system integration services

Note: These entities are subsidiaries or associate of BSAM.

Included in the cost of investments in associates was goodwill of approximately RMB1,059,000 (2004: RMB1,966,000) arising on acquisitions of associates in prior years. Movement of goodwill of associates is analysed as follows:

	2005	2004
	RMB'000	RMB'000
COST		
At 1st January	**2,070**	2,070
Elimination of accumulated amortisation upon application of HKFRS 3 (see note 2)	**(104)**	–
Acquisition	**1,059**	–
Transfer to goodwill in a subsidiary (note 18)	**(1,966)**	–
At 31st December	**1,059**	2,070
AMORTISATION		
At 1st January	**104**	–
Elimination of accumulated amortisation upon application of HKFRS 3 (see note 2)	**(104)**	–
Provided for the year	**–**	104
At 31st December	**–**	104
CARRYING VALUES	**1,059**	1,966

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For the year ended 31st December 2005

14. Interests in Associates (continued)

Until 31st December 2004, goodwill had been amortised over 20 years.

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	RMB'000	RMB'000
Total assets	**156,511**	125,766
Total liabilities	**(65,977)**	(62,526)
Net assets	**90,534**	63,240
Group's share of net assets of associates	**31,873**	24,404
Turnover	**38,398**	18,256
Loss for the year	**(8,156)**	(12,260)
Group's share of loss of associates for the year	**(2,652)**	(4,037)
Gain on dilution of interests in associates	**254**	–
Share of losses of associates as shown in consolidated income statement	**(2,398)**	(4,037)

15. Interest in a Jointly Controlled Entity

	2005	2004
	RMB'000	RMB'000
Cost of unlisted investment	**4,000**	4,000
Share of post-acquisition loss	**(2,849)**	(2,043)
Share of net assets	**1,151**	1,957

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For the year ended 31st December 2005

15. Interest in a Jointly Controlled Entity (continued)

Details of the Group's jointly controlled entity, which is private limited company established and operating in the PRC, at 31st December 2005 are as follows:

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

16. Non-trading Securities

	2005	2004
	RMB'000	RMB'000
Unlisted equity investments	**–**	16,350

As described in note 3, the Group reclassified its non-trading securities to available-for-sale investments upon the initial application of HKAS 39 on 1st January 2005.

17. Available-for-sale Investments

	2005	2004
	RMB'000	RMB'000
Unlisted equity investments, at cost	**1,350**	–

As disclosed in note 3 and note 16, the Group reclassified its non-trading securities to available-for-sale investments upon the initial application of HKAS 39 on 1st January 2005.

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For the year ended 31st December 2005

17. Available-for-sale Investments (continued)

The above investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be reliably measured.

Details of the investments at 31st December 2005 are as follows:

Name of investee	Place of Incorporation/ establishment	Proportion of nominal value of registered/share capital held by the Group	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.)	PRC	5%	Development of computer software, computer system integration and technical consultancy
Astoria Innovations Ltd.	British Virgin Islands	5%	Provision of labour force digitalisation market service and related businesses

Pursuant to an equity transfer agreement entered into by the Company and a state-controlled entity namely 北京市基礎設施投資有限公司 (Beijing Infrastructure Investment Co., Ltd. "Beijing Infrastructure") in November 2005, the Group disposed of all its equity interest of 3% in 北京中關村信息工程股份有限公司 (Zhongguancun Information Engineering Co., Ltd.), which had been carried at cost of RMB15,000,000 before disposal, to Beijing Infrastructure for cash consideration of RMB17,580,000 payable by four installments. A gain on disposal of RMB2,580,000 has been recognised in income statement for the current year. Up to the balance sheet date, consideration of approximately RMB8,966,000 has been paid to the Group and pursuant to the agreement, the remaining two installments of RMB5,274,000 and approximately RMB3,340,000 shall be paid before 30th April 2006 and 30th June 2006, respectively. The outstanding consideration of approximately RMB8,614,000 in aggregate is included in other receivables and is guaranteed by 北京市地下鐵道建設公司 (Beijing Subway Construction Co., Ltd., "Beijing Subway"), a subsidiary of Beijing Infrastructure, pursuant to a guarantee agreement entered into between the Company and Beijing Subway in November 2005.

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18. Goodwill

	2005 RMB'000	2004 RMB'000
COST		
At 1st January	–	–
Arising on acquisition of subsidiaries	1,522	–
Transfer from interests in associates (note)	1,966	–
At 31st December	3,488	–
IMPAIRMENT		
At 1st January	–	–
Impairment loss recognised for the year	3,488	–
At 31st December	3,488	–
CARRYING VALUES	–	–

Note: The Company acquired an additional equity interest of 25.16% in Beijing Co-Create Software Company Limited (北京共創開源軟件有限公司) ("Beijing Co-Create") during the year. Upon the completion of this acquisition, the Company's equity interest in Beijing Co-Create increased from 30.81% to 55.97% at the balance sheet date. This resulted in goodwill of approximately RMB1,522,000 upon acquisition of that additional equity interest of 25.16%, and transfer of goodwill of approximately RMB1,966,000 previously included in interests in associates (see note 14).

As at 31st December 2005, before impairment testing, goodwill has been allocated to one single cash generating unit, Beijing Co-Create. The recoverable amount of this cash generating unit is determined from value in use calculations. The Group prepared cash flow forecasts derived from the 5-year financial budgets. The forecast is prepared based on an estimated growth rate of 15% and the rate used to discount the forecast is 5.22%. The estimated growth rate is based on expectations of future expansion with reference to its service contracts on hand.

Due to increased competition in the market, the Group has revised its cash flow forecasts for Beijing Co-Create, the Group recognised an impairment loss of approximately RMB3,488,000 in relation to goodwill of Beijing Co-Create after the impairment testing.

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For the year ended 31st December 2005

19. Inventories

	2005 RMB'000	2004 RMB'000
Raw materials	**1,778**	1,496
Merchandise	**15,227**	18,270
	17,005	19,766

Inventories of approximately RMB4,029,000 are carried at net realisable value at 31st December 2005.

20. Amounts Due From Customers for Contract Work

	2005 RMB'000	2004 RMB'000
Contract costs incurred to date	**77,831**	278,173
Recognised profits less recognised losses	**7,951**	77,347
	85,782	355,520
Less: Progress billings	**(58,203)**	(337,547)
	27,579	17,973

21. Trade and other Receivables

	2005 RMB'000	2004 RMB'000
Trade receivables		
– a fellow subsidiary	**1,370**	1,021
– other state-controlled entities and the PRC government	**6,160**	52,537
– others	**12,574**	20,199
	20,104	73,757
Other receivables, deposits and prepayments	**26,609**	31,016
	46,713	104,773

Notes to the Financial Statements

For the year ended 31st December 2005

21. 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	**2005**	2004
	RMB'000	RMB'000
0 to 60 days	6,162	25,045
60 to 90 days	–	5,235
91 to 180 days	3,486	27,214
Over 180 days	10,456	16,263
	20,104	73,757

The fair value of the Group's trade and other receivables at 31st December 2005 was approximate to the corresponding amount.

22. Property, Plant and Equipment held for Sale

On 30th December 2005, the Company entered into an asset transfer agreement with third parties pursuant to which the Company agreed to sell its business and all assets in relation to the Group's provision of online payment services to those third parties for cash consideration of US$2,500,000. The transfer of the business and related assets had not been completed up to 31st December 2005.

The amount represents carrying value of computer equipment, network equipment, office equipment, furniture and fixtures in relation to the Group's division of online payment services as at 31st December 2005 (see note 13).

Notes to the Financial Statements

For the year ended 31st December 2005

22. Property, Plant and Equipment held for Sale (continued)

The Group's division of online payment services is included as e-Commerce technology services and the loss for the year from the operation is anlaysed as follows:

	2005	2004
	RMB'000	RMB'000
Turnover	**4,118**	4,249
Cost of sales	**(2,093)**	(1,985)
Gross profit	**2,025**	2,264
General and administrative expenses	**(3,505)**	(3,345)
Loss for the year	**(1,480)**	(1,081)

23. Trade and other Payables

	2005	2004
	RMB'000	RMB'000
Trade payables		
– a fellow subsidiary	**526**	–
– others	**8,594**	4,840
	9,120	4,840
Government grants not recognised as income	**24,489**	10,724
Other payables and accrued expenses	**55,076**	29,068
Customers' deposits	**8,237**	16,643
	96,922	61,275

Notes to the Financial Statements

For the year ended 31st December 2005

23. Trade and other Payables (continued)

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

Age	**2005**	2004
	RMB'000	RMB'000
0 to 60 days	**1,918**	1,820
61 to 90 days	**–**	23
91 to 180 days	**4,717**	621
Over 180 days	**2,485**	2,376
	9,120	4,840

The fair value of the Group's trade and other payables at 31st December 2005 was approximate to the corresponding amount.

24. Other Loan

	2005	2004
	RMB'000	RMB'000
Carrying amount repayable:		
Within one year	**7,000**	4,000
More than one year, but not exceeding two years	**3,000**	2,000
More than two years, but not exceeding five years	**–**	4,000
	10,000	10,000
Less: Amount due within one year shown under current liabilities	**7,000**	4,000
Amount due after one year	**3,000**	6,000

The loan is granted by the PRC government, denominated in Renminbi, unsecured and bears interest at average interest rate of 2.55% (2004: 2.25% per annum) for the year ended 31st December 2005.

The fair value of the Group's other loan at 31st December 2005 was approximate to the corresponding amount.

Notes to the Financial Statements

For the year ended 31st December 2005

25. Share Capital

	Number of shares		Registered, issued and fully paid
	Domestic shares	**H shares**	
			RMB'000
Balance of share capital of RMB0.10 each at 1st January 2004, 31st December 2004 and 31st December 2005	2,123,588,091	774,498,000	289,809

26. 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 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.

Details of the pre-IPO 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 1st January 2004	Lapsed during the year	Outstanding at 31st December 2004	Lapsed during the year	**Outstanding at 31st December 2005**
Directors	11,394,050	(1,244,650)	10,149,400	–	**10,149,400**
Supervisors	3,795,950	–	3,795,950	–	**3,795,950**
Senior management	5,607,590	(770,970)	4,836,620	–	**4,836,620**
Senior advisors	3,929,250	(1,309,750)	2,619,500	–	**2,619,500**
Advisors	5,083,690	(773,760)	4,309,930	–	**4,309,930**
Other employees	26,228,015	(3,187,265)	23,040,750	(3,061,095)	**19,979,655**
	56,038,545	(7,286,395)	48,752,150	(3,061,095)	**45,691,055**

Notes to the Financial Statements

For the year ended 31st December 2005

26. Share Options (continued)

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

The options outstanding at the end of the year have a remaining contractual life of 6 years (2004: 7 years). 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.

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.

Notes to the Financial Statements

For the year ended 31st December 2005

26. Share Options (continued)

(b) Share Option Scheme (continued)

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. Total consideration received during the year ended 31st December 2004 for taking up the options granted amounted to RMB114. The share options are fully vested on 17th August 2004. Details of these share options held by the directors, other key management and other parties and movements in such holdings during the years are as follows:

	Outstanding at 1st January 2004	Granted during the year	Lapsed during the year	Outstanding at 31st December 2004	Lapsed during the year	**Outstanding at 31st December 2005**
Directors	–	14,428,000	(1,466,000)	12,962,000	–	**12,962,000**
Supervisors	–	4,398,000	–	4,398,000	–	**4,398,000**
Senior management	–	9,166,000	–	9,166,000	–	**9,166,000**
Senior advisors	–	11,264,000	–	11,264,000	–	**11,264,000**
Advisors	–	3,302,000	–	3,302,000	–	**3,302,000**
Other employees	–	24,740,000	(918,000)	23,822,000	(3,093,000)	**20,729,000**
	–	67,298,000	(2,384,000)	64,914,000	(3,093,000)	**61,821,000**

The options outstanding at the end of the year have a remaining contractual life of 9 years (2004: 10 years).

The financial impact of share options granted and vested before 1st January 2005 is not recorded in the consolidated balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year ended 31st December 2004. 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.

Notes to the Financial Statements

For the year ended 31st December 2005

27. Reserves

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.

28. Acquisition of a Subsidiary

On 14th March 2005 and 18th March 2005, the Company entered into agreements with four investors of Beijing Co-Create, a company established in the PRC with limited liability of which 30.81% equity interest was previously owned by the Company. Pursuant to the agreements, the Company acquired an additional equity interest of 25.16% in Beijing Co-Create at a consideration of RMB2,849,000. Upon the completion of these agreements, the Company effectively owns 55.97% equity interest in Beijing Co-Create. These transactions have been accounted for using the purchase method of accounting.

Notes to the Financial Statements

For the year ended 31st December 2005

28. Acquisition of a Subsidiary (continued)

The carrying amount and the fair value of net assets acquired in the transaction, and the goodwill arising, are as follows:

	2005 RMB'000
Net assets acquired:	
Property, plant and equipment	941
Amounts due from customers for contract work	10,670
Trade and other receivables	1,608
Bank balances and cash	7,262
Trade and other payable	(14,908)
	5,573
Minority interests	(2,498)
Goodwill	1,522
	4,597
Total consideration, satisfied by:	
Cash	2,849
Interest in an associate	1,748
	4,597
Net cash inflow arising on acquisition:	
Cash consideration paid	(2,849)
Cash and cash equivalents acquired	7,262
	4,413

The directors are of the opinion that the carrying amount of the net assets acquired approximates their fair value.

Notes to the Financial Statements

For the year ended 31st December 2005

28. Acquisition of a Subsidiary (continued)

The goodwill arising on the acquisition of Beijing Co-Create is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination and expected expansion plan.

Beijing Co-Create contributed approximately RMB2,938,000 and RMB1,487,000 to the Group's revenue and profit before tax respectively, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January 2005, total group revenue for the year would have been approximately RMB254,779,000, and profit for the year would have been approximately RMB4,124,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January 2005, nor is it intended to be a projection of future results.

Notes to the Financial Statements

For the year ended 31st December 2005

29. Disposal of a Subsidiary

During the year ended 31st December 2004, the Group disposed of 50% of its equity interest in BJCA to BSAM 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)
	8,653
Gain on disposal	250
Total consideration	8,903
Satisfied by:	
Cash	2,750
Interest in an associate	2,000
Amount due from an associate	2,680
Dividend receivable	1,473
	8,903
Net cash outflow arising on disposal:	
Cash consideration	2,750
Bank balances and cash disposed of	(5,443)
	(2,693)

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 2005

30. Major Non-cash Transaction

During the year, the Company acquired 23% equity interest in Ziguang, a former supplier at a consideration of RMB7,450,000, of which RMB2,000,000 was satisfied in cash while the remaining balance of RMB5,450,000 was satisfied by waive of trade deposits previously paid by the Company to that supplier in previous years.

31. Operating Leases

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

	2005	2004
	RMB'000	RMB'000
Land and buildings		
Within one year	**2,530**	10,588
In the second to fifth years inclusive	**1,909**	2,694
After five years	**–**	980
	4,439	14,262
Cable network		
Within one year	**–**	924
In the second to fifth years inclusive	**–**	2,852
	–	3,776

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 2005

32. Capital Commitments

	2005	2004
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	**70,013**	68,611
– investment in CNC Beijing (note a)	**56,000**	56,000
– formation of a new joint venture (note b)	**30,000**	–
– other investments	**1,300**	–
	157,313	124,611

Notes:

(a) 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 and a state-controlled entity, to acquire from CNC Beijing its 28% interests in 北京正通網絡通信有限公司 (Beijing Zhengtong Network Communication Co., Ltd.), which is established in the PRC and engaged in 800M digital integration of mobile phone, phonetic data and image business, for a consideration of RMB56,000,000. The agreement was approved by the Company's shareholders in an extraordinary general meeting held on 28th March 2003. No supplemental agreement has been entered into by relevant parties in respect of the investment up to the balance sheet date.

(b) On 30th December 2005, the Company entered into a joint venture agreement with a state-controlled entity, namely 北京市地鐵運營有限公司 (Beijing Subway Operating Co., Ltd.), to form a new joint venture with registered capital of RMB45,000,000. Pursuant to the agreement, the Company and Beijing Subway Operating Co., Ltd. agreed to contribute RMB30,000,000 and RMB15,000,000 to the registered capital of this new joint venture, and shall be entitled to the dividend distribution of the joint venture in the proportion of 49% and 51%, respectively.

33. Retirement Benefit Scheme

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

Notes to the Financial Statements

For the year ended 31st December 2005

34. Litigation

In 2004, a claim of RMB28,000,000 was raised by 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 (inclusive of the remaining consideration of RMB6,300,000). The directors are of the opinion that the contractor failed to perform its obligations under the contract and an appeal was lodged by the Company on 23rd December 2004. Provision for the claim has been made as at 31st December 2005 at the directors' best estimate based on evidence available up to the report date. The information required by HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

35. Related Party Disclosures

(i) Transactions with holding company and fellow subsidiaries

Related party	**Nature of transactions**	Notes	**2005** **RMB'000**	2004 RMB'000
CNC Beijing	Dedicated circuit leasing services paid	(a)	**7,081**	9,698
	Telephone related services paid	(b)	**531**	361
Capnet Company Limited ("Capnet")	Comprehensive services income received	(c)	**5,302**	6,677
Beijing IC Design Park Co., Ltd.	Rental paid for office premises	(d)	**4,976**	3,981

Notes:

(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 27th April 2005, the Company and BB-BTC entered into a renewal agreement to extend the lease term to 30th June 2006.

Notes to the Financial Statements

For the year ended 31st December 2005

35. Related Party Disclosures (continued)

(i) Transactions with holding company and fellow subsidiaries (continued)

Notes: (continued)

(b) CNC Beijing provided the Group with telephone and other telephone related services in both years.

(c) 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 to extend the service period to 31st December 2006.

(d) 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 approximately RMB4,000,000 for each of the three years ended 31st December 2005.

In addition, Beijing Co-Create entered into an agreement with Beijing IC Design Park Co., Ltd. on 24th June 2003, to rent office premises of annual rental of approximately RMB1,327,000 for a fixed term of two years commencing July 2003. On 8th June 2005, both parties entered into a renewal lease agreement to extend the lease term to 7th June 2007. Beijing Co-Create has become a subsidiary of the Company in March 2005 and incurred rental of approximately RMB995,000 for the office premises for the period from the date of becoming a subsidiary of the Company to the balance sheet date.

(e) On 2nd September 2005, the Company entered into a capital increase agreement with BSAM and 上海市電子商務安全證書管理中心有限公司 (Shanghai Electronic Commerce Security Certificate Management Centre Company Limited, "SHECA"), a state-controlled entity. Pursuant to the agreement, the Company, BSAM and SHECA contributed RMB4,974,000, RMB5,000,000 and RMB26,000 respectively to the registered capital of BJCA. After the capital injection, the registered capital of BJCA increased from RMB20,000,000 to RMB30,000,000 and the equity interests in BJCA held by the Company, BSAM and SHECA changed from approximately 46.7%, 50.0% and 3.3% to approximately 47.7%, 50.0% and 2.3%, respectively.

The above transactions were carried out after negotiations between the Group and the related 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 2005

35. Related Party Disclosures (continued)

(ii) Transactions with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under BSAM which is controlled by the PRC government. Apart from the transactions with BSAM and fellow subsidiaries and other related parties disclosed above, the Group also provides e-Government technology services of approximately RMB225,099,000 (2004: RMB217,161,000) to other state-controlled entities and the PRC government. The directors consider they are independent third parties so far as the Group's business transactions with them are concerned.

In addition, the Group has entered into various transactions, including utilities services and surcharges/taxes charged by the PRC government, and deposits placements and other general banking facilities with certain banks and financial institutions which are state-controlled entities, in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except for the amount of customers' deposits for contract works of approximately RMB13,247,000 (2004: RMB22,012,000) as at 31st December 2005, those transactions as disclosed above, and certain balances and investments disclosed in respective notes to the financial statements, the directors are of the opinion that transactions and balances with these related parties are not significant to the Group's operations.

(iii) Amounts due from associates and a jointly controlled entity

The amounts due from associates and a jointly controlled entity are unsecured, non-interest bearing and are repayable on demand. The fair value of the amounts as at 31st December 2005 was approximate to the corresponding amount.

(iv) Compensation of key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the year is approximately RMB2,741,000 (2004: RMB2,656,000).

Notes to the Financial Statements

For the year ended 31st December 2005

36. Particulars of Subsidiaries

Details of the Company's subsidiaries as at 31st December 2005 are as follows:

Name of subsidiary	Form of business structure	Place of registration/ incorporation and operation	Nominal value of registered/ share capital	Proportion of nominal value of registered capital held directly by the Company	Principal activities
重慶宏信軟件有限責任公司 (Chongqing Hongxin Software Company Limited)	Private limited company	PRC	RMB20,000,000	90%	Software development and related businesses
Capinfo (Hong Kong) Company Limited	Private limited company	Hong Kong	HK$2	100%	Investment holding
北京共創開源軟件有限公司 (Beijing Co-Create Open Source Software Co., Ltd.)	Private limited company	PRC	RMB12,240,000	55.97%	Development, sales and management consultation of operation systems and related businesses
東莞市龍信信息發展有限公司 (Dongguan City Longxin Information Development Company Limited)	Private limited company	PRC	RMB2,000,000	60%	e-Commerce application and network developments

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

Financial Summary

	Year ended 31st December,				
	2001	2002	2003	2004	**2005**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	149,745	237,474	279,565	241,455	**254,187**
(Loss) profit before taxation	(9,376)	12,912	8,049	2,378	**7,548**
Taxation	(916)	(2,410)	(2,048)	(4,782)	**(3,118)**
(Loss) profit for the year	(10,292)	10,502	6,001	(2,404)	**4,430**
Attributable to:					
Equity holders of the parent	(9,933)	(10,019)	5,949	(1,806)	**4,332**
Minority interests	(359)	(483)	(52)	(598)	**98**
	(10,292)	(10,502)	6,001	(2,404)	**4,430**

	As at 31st December,				
	2001	2002	2003	2004	**2005**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	777,407	703,853	661,981	643,349	**677,525**
Total liabilities	(257,517)	(163,755)	(113,882)	(98,218)	**(124,766)**
Minority interests	(4,060)	(492)	(2,544)	(1,282)	**(4,678)**
Capital and reserves	515,830	539,606	545,555	543,749	**548,081**

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 Monday, 26th June, 2006 at 9:30 a.m. for the following purposes:

As ordinary resolutions

1. To consider and approve the supervisors' report for the year 2005;

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, 2005;

3. To authorize the board of directors to fix the remuneration of directors and supervisors of the Company;

4. To consider and approve the re-appointment of auditors and to authorize the board of directors of the Company to fix their remuneration;

5. 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, 2006

* *For identification purpose only*

Notice of Annual General Meeting

Notes:

1. The register of shareholders of the Company will be closed from 26th May, 2006 (Friday) to 25th June, 2006 (Sunday) (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 25th May, 2006 (Thursday) 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 6th June, 2006 (Tuesday). The reply slip may be delivered by hand or by post.