Capinfo Company Limited

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

(Stock Code:8157)

Annual Report 2006

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	Room 1902 Mass Mutual Tower 38 Gloucester Road Wanchai 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. CHEN Jing (Chairman) （陳靜先生） Mr. YE Lu （葉路先生） Mr. Liu Dongdong （劉東東先生）

Corporate Information

Remuneration Committee	Mr. CHEN Jing (Chairman) （陳靜先生） Dr. CHEN Xinxiang （陳信祥博士） Mr. YE Lu （葉路先生） Mr. LIU Dongdong （劉東東先生）
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	Mallesons Stephen Jaques
Authorised person to accept service of process and notice	Wong Brothers & Co.
Hong Kong H 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 2006, the Group's foundation business progressed steadily in all aspects, project commercialization continued, significant breakthroughs were made in the Olympic Games projects, comprehensive integration of IT services businesses was commenced and internal-control mechanism was further refined and perfected.

Notable achievements were made in our foundation business. The stable operation of Beijing Medical Insurance Information System enabled over 6 million insured to have access to basic medical services. Beijing Municipal Government Cable Private Network was fully service oriented. The newly launched Beijing Municipal Government Affairs Outer-Network provides users with better and more extensive services. Beijing Community Service Information System was transformed into a community public service platform with its management and service functions being further strengthened.

The effectiveness of application of major informatization projects are apparent and the IT services capabilities are progressively strengthened. The project of "Beijing City Administration Information Platform" was awarded the prize of "Excellent International Project Management (China) 2006". During the Spring Festival in 2006, Beijing Emergency Response System played a vital role in controlling the setting off of firecrackers in all districts and counties of the city and in handling emergencies which provided technical protection in eliminating losses in fires. Beijing Hotline has become an indispensable tool for Beijing Municipal Government, enterprises and public institutions in providing public services.

The Group was delighted to secure Olympic Games projects. The Group participated in the information system building project for 2008 Paralympic Games and won the tender for the e-mail system construction project for Beijing Olympic Organizing Committee.

The Group continued to promote its project management standard and constantly enhanced its technical innovation capability. The improvement in CMMIS (Capability Maturity Model Integration for Software) process has been aggressively carried out. A number of software products were awarded the software copyright registration certificates issued by the National Copyright Administration.

In the coming year, we will undertake more important informatization construction commitments. The upcoming 2008 Olympic Games in Beijing, in particular, offers us greater development opportunities, while accompanying by higher requirements. On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to shareholders and other people for their full support and to all the staff members for their dedication.

Dr. CHEN Xinxiang
Chairman

Beijing, the PRC,
23 March 2007

Management Discussion and Analysis

Financial Review

The board of Directors (the "Board") of the Company announces that, for the year ended 31 December 2006, the Company and its subsidiaries (collectively the "Group") recorded an audited turnover of approximately RMB223.2 million, representing a decrease of approximately 12% over that of last year, and a gross profit margin of 25%, as compared with 26% for last year. The Group has attained an audited profit attributable to equity holders of the parent of approximately RMB11.6 million for the year under review, representing an increase of approximately 167% over that of last year.

The Group's turnover decreased during the year under review because revenue recognized from both e-Government business and e-Commerce business decreased.

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 the decrease in administrative expenses.

During the year under review, there was a gain on disposal of the online payment business of approximately RMB18 million and a gain on disposal of a jointly controlled entity of approximately RMB1.8 million which compensated the impact from the decrease in turnover and attributable to the increase in profit attributable to equity holders of the parent to approximately RMB11.6 million, representing an increase of approximately 167% over that of the last year.

The Group's current ratio, defined as total current assets over total current liabilities, maintained at a relatively high level of over 3.4 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 31 December 2006, the Group had unsecured borrowings of RMB10 million, bearing interests at an average interest rate of 2.55%, which will mature within 1 year from 31 December 2006. Cash and bank deposits of the Group as at 31 December 2006 were mainly derived from shareholders' contribution and working capital generated from operations.

As at 31 December 2006, the Group had no assets pledged and had no significant contingent liabilities.

As at 31 December 2006, the Group had capital commitment of approximately RMB46.1 million.

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

Management Discussion and Analysis

Business Review

Foundation Businesses

The e-Government Network

During the year, the Group reinforced operational safeguarding capability, and particularly standardized the process workflow for network events and backup plans. Consequently customer satisfaction was substantially enhanced and the upgrading task for nearly 400 network points for the community and medical insurance networks was largely completed. The Group introduced a portal website prototype system for the Beijing Municipal Government Affairs Outer-Network, and successfully carried out the security work for the cable network of government affairs during the China-Africa Cooperation Forum.

At the end of 2006, the e-Government Cable Network project ranked fifth in the award of the 2006 Top 20 Best Service Organizations for E-Government Provision and Maintenance in China（「2006年中國電子政務最佳運維服務機構20強」）.

Management Discussion and Analysis

The Medical Insurance System

During the year, the Medical Insurance System continued to improve its service and had stable overall performance, the system now covers 18 districts and counties in Beijing as well as the Yizhuang Development Zone（亦莊開發區）in Beijing, with more than 900 designated medical outlets, 25 medical insurance handling agents with 70,000 participating enterprises and over 6,000,000 policyholders.

The Community Service Information System

During the year, the Group completed the upgrading and restructuring work for the community system platform, and enabled interconnection with the shared interchange platform for municipal government affairs information. The Group introduced a new version of community administrative software which was marketed among more than 2,500 communities throughout the city.

The Beijing Municipal Community Public Service Platform（「北京市社區公共服務平台」）enjoyed a service call volume 51% higher than the same period last year, and 94.4% customer satisfaction relating to the provision and maintenance of the community network. In December 2006, the Platform ranked fourth in the award of the 2006 Top 20 Best Service Organizations for Provision and Maintenance of E-Government Affairs in China（「2006年中國電子政務最佳運維服務機構20強」）.

Business Development

During 2006, the Group further consolidated various resources in response to market demands and targeted at the high-end IT service segments, which brought about new development trends and business growth.

Emergency Response Centres

During the year, the Group secured projects such as the Tongzhou Emergency Response Centre, the Daxing Emergency Response Centre and the Changping Emergency Response Centre etc., and also carried out construction work for the 12345 non-emergency aid system. This has helped establishing brand image and gaining popularity for the Group within the emergency aid, non-emergency aid and fundamental municipal management sectors, laying sound foundations for it to take up further projects in the related fields.

Management Discussion and Analysis

Development in Other Regional Markets

Adhering to the industry-focused and project-centered principle for the consolidation of regional markets, the Group has successfully secured and carried out e-government systems in cities such as Dongguan, Huai'an, Yingkou, Panjin and Shenyang etc. in the PRC. It has formed a development strategy for other regional markets applying the experience gained in Beijing with geographical adjustments' rationale and has achieved relatively stable operating and maintenance revenue and profit.

The Olympics Projects

The Group has made breakthroughs in Olympics-related projects with the upcoming 2008 Beijing Olympics. The multilingual research and development project once again won support from the National 863 Project. Progress was seen in the Paralympics IT service. The Group established Beijing Sports Technology Co., Ltd., a wholly-owned subsidiary with an aim to take the Olympics IT service projects, to glorify the Olympics spirit and to grow into an internationally leading provider of sports information system and service. The project will provide a favorable opportunity for the Group to gain access to the science and technology orientated sports culture fields.

IT Services Business

Upon a year of initial exploration, a set of growth pattern and ideas was formed which targeted the 2008 Olympics for its development IT services, making use of the foundation businesses and network platform resources as strongholds and call centers and IT service centres as technological backups.

In addition to core businesses including the Capital Environment Building Hotline, the Heat-supply Hotline, the Sewage Lids Management Hotline, Administrative Practices and Trade Practices Hotline, the Juvenile Psychological Hotline and the Medical Insurance Consultancy Hotline, the Group recorded steady growth in the outsourcing business of e-government affairs call services, and it also undertook the Capital ASP Service Platform for Small and Medium Enterprises from the Municipal Science and Technology Commission. This marked the Group's initial headways to the enterprise IT service segment through its strengths in platform resources.

Management Discussion and Analysis

Investments

Upon the successful completion of transfer of the Online Payment Assets between the Group and PayEase (Beijing) Technology Ltd (a wholly-owned subsidiary of PayEase Corp.), Capinfo (Hong Kong) Company Limited, a wholly owned subsidiary of the Company acquired approximately 25.9% equity interests in PayEase Corp. in order to further strengthen the mutual cooperation.

In May 2006, one of the Group's wholly-owned subsidiaries, Capinfo Technology Development Company Limited（「首都信息科技發展有限公司」）, formerly known as Capinfo System Integration Company Limited（「首都信息系統集成有限責任公司」）, was established with a registered capital of RMB 50 million, and was awarded with Grade I Quality Assurance for Computer Information Systems Integration Relating to State Confidential Information, which was a crucial attribute for the Group's competitiveness in the market.

In September 2006, through joint efforts with the Information Center of the State General Administration of Sports, the Group established another wholly-owned subsidiary, namely Beijing Sports Technology Co. Ltd. with a registered capital of RMB10 million to engage in the IT service for the 2008 Beijing Paralympics.

Future Prospects

Based on the stable growing foundation business, the Group will further capitalize on its abundant potential resources, constantly enhance mindsets for services innovation, strengthen the caliber on active planning and in-depth services, project management functions and the setup of a human resources administrative system in order to maximize the overall advantages of the Group.

Employees

Professionals are the Group's precious assets. As at the end of 2006, the Group had 702 employees as against 542 employees at the end of 2005. During the year, total staff cost was approximately RMB58.7 million (2005: RMB52.0 million).

Directors, Supervisors and Senior Management

Executive Directors

Dr. CHEN Xinxiang (陳信祥博士), aged 64, 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. Dr. Chen 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 the PRC 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 of America. 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 38, an executive Director since July 2001 and the Chief Executive of the Company. He joined the Company in September 1998 and is 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 53, an executive Director since July 2001 and Chief Financial Officer of the Company appointed by the Board. 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 27 years of 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 joining the Group.

Non-executive Directors

Mr. LI Minji (李民吉先生), aged 42, 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 in the PRC and received a master's 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 16 years of experience in operation and management.

Mr. XING Dehai (邢德海先生), aged 66, 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 in the PRC. He successively served as chairman of Beijing Longda Light Industry Holdings Company Limited, general manager of Beijing Second Light Industry Corporation and has over 46 years of experience in operation and management.

Directors, Supervisors and Senior Management

Mr. XU Zhe (徐哲先生), aged 36, joined the Group in July 2003 as a non-executive Director and is currently the manager of Financial Assets Management Department of BSAM. He graduated from the Beijing Economics College (currently known as the Capital University of Business) in the PRC in 1993 with a Bachelor's degree in corporate management, and graduated from the Guanghua School of Management of the Peking University with a Master degree in Business Administration (MBA) in 2005. Mr. Xu worked in Beijing International Trust and Investment Corporation Limited and has over 11 years of experience in corporate operation and management.

Mr. BAI Liming (白利明先生), aged 34, joined the Group in July 2003 as a non-executive Director and is currently the vice manager of Financial Assets Management Department of BSAM. He graduated from the Faculty of Technical Economics of Tsinghua University in the PRC in 2000 with a master's degree. He had worked for China Chemical Import and Export Company and Ping An Insurance Company Beijing Branch and has been involved in investment and asset management work since then. He has 6 years of experience in management.

Dr. WU Bo (吳波博士), aged 49, a non-executive Director of the Company since October 2006, joined the Group in August 2000. Dr. Wu graduated from the Faculty of Optic Engineering of Huazhong University of Science and Technology in the PRC in 1982 and 1984 with a bachelor's and a master's degree in science respectively. He received a doctorate degree in 1991 in the Doctor Student Training Program co-organised by the Bonn University in Germany and the Dalian University of Technology in the PRC, 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 in the PRC 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 in the United States of America, 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 joining the Company.

Mr. QI Qigong (戚其功先生), aged 46, 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.

Directors, Supervisors and Senior Management

Mr. PAN Jiaren (潘家任先生), aged 66, joined the Group in July 2001 as a non-executive Director. Mr Pan graduated from the Faculty of Physics of Wuhan University in the PRC in 1963 with a bachelor's degree. He has over 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.

Ms. TAN Guoan (譚國安女士), aged 61, joined the Group 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 the PRC 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 36 years of experience in management.

Dr. XIA Peng (夏鵬博士), aged 41, joined the Group in March 2006 as a non-executive Director. He has been the financial controller of Beijing All Media and Culture Group (北京廣播影視集團). Dr. Xia obtained a Ph.D degree in accountancy from People's University in the PRC (中國人民大學) in 2005. He is a member of the Chinese Institute of Certified Public Accountants. Dr. Xia had worked at The Accounting Society for Foreign Relations and Trade of China (中國對外經濟貿易會計學會) as a director of the editorial department, the vice-chairman and the secretary general. Dr. Xia has over ten years of management experience.

Mr. LIU Zhiyong (劉志勇先生), aged 42, joined the Group in October 2006 as a non-executive Director and is currently the general manager of China Telecom Systems Integration Limited. Mr. Liu graduated from Beijing College of Posts and Telecommunications (now Beijing University of Posts and Telecommunications) in the PRC in 1991, majoring in electronics and communications and received a master's degree. He successfully served as deputy chief engineer of Shandong Provincial Administration of Posts and Telecommunications, deputy general manager of Anhui Telecom Company Limited and manager of China Telecom Internet Operations, Product Development Centre Internet Product Department and Corporate Informatization Department. He has over 15 years of experience in management.

Directors, Supervisors and Senior Management

Independent non-executive Directors

Mr. CHEN Jing (陳靜先生), aged 62, joined the Group in October 2006 as an independent non-executive Director and is currently an advisor to the People's Bank of China, a member of the Advisory Committee for State Informatization, an expert of the expert advisory group for Beijing Municipal Government. Concurrently, Mr. Chen serves as professor of South Western University of Finance and Economics, University of International Business and Economics and Xi'an Jiaotong University, in the PRC. Mr. Chen graduated from Tsinghua University in the PRC in 1967, majoring in automatic control. He successively served as director, department of science and technology for the People's Bank of China, office director of National Banking Informatization Leading Group, and standing deputy chief and chief of Chengdu Computer Application Institute of Chinese Academy of Science.

Mr. YE Lu (葉路先生), aged 62, joined the Group in October 2006 as an independent non-executive Director and is currently a professor and a doctoral tutor of National University of Defence Technology and Beijing Institute of Technology and a professor rank research fellow of No. 15 Electronics Institute of the Ministry of Information Industry. Mr. Ye graduated from Tsinghua University in the PRC, majoring in computer. He successively held positions in the national defence industry office of the CPC Central Military Commission, the State Commission of Defence Science and Industry and PLA General Equipment Headquarters and served as the military attache (defence science and technology) of the Chinese Embassy in England. Mr. Ye led the preparation of the military computer hardware, software and networks scientific research planning for the "Seventh Five-Year Plan", the "Eighth Five-Year Plan" and the "Ninth Five-Year Plan" of the whole army in the PRC. He also participated in the development of Yinhe supercomputer.

Mr. LIU Dongdong (劉東東先生), aged 32, joined the Group as an independent 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 the PRC in 1997 and received a bachelor's 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 8 years of experience in operation and management.

Qualified Accountant and Company Secretary

Mr. LO Wai Tat, Andrew (盧偉達先生), aged 34, 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 11 years of working experience in auditing and financial management.

Directors, Supervisors and Senior Management

Supervisors

Ms. LIU Jian （劉健女士）, aged 55, a Supervisor of the Company. She was appointed a supervisor of the Company in July 2001. Ms. Liu graduated in 1995 from the Shanghai Finance University in the PRC with a master's degree. Currently a director and deputy general manager of BSAM, Ms. Liu had 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 31, a Supervisor of the Company. Mr. ZHANG joined the board of supervisors of the Company in June 2000. Mr. Zhang graduated in June 1998 from China Chongqing Institute of Technology with a bachelor's degree in accountancy in 1998, and has over 6 years of management experience.

Mr. YAO Yuan (姚遠先生), aged 31, a Supervisor of the Company since October 2006 and is currently Chief of the Legal Affairs Department of the Company. Mr. Yao graduated from the Law Department of Peking University in the PRC in 1998, majoring in both economic laws and international laws and received a LLB degree. Mr. Yao successively served as a counsel of Air China Limited and a lawyer of Jingtian & Gongcheng and Tianke & Guodi Law Office.

Senior Management

Mr. LU Shouqun （陸首群先生）, aged 70, 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 the PRC 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. ZHUANG Zixin （莊梓新先生）, aged 71, 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 the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

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 Directors at the board meetings are as follows:

Directors	**Attendance**
Executive Directors	
Dr. Chen Xinxiang *(Chairman)*	5/6
Dr. Wang Xu *(Chief Executive)*	6/6
Ms. Zhang Yan	5/6
Non-executive Directors	
Mr. Li Minji	1/6
Mr. Xing Dehai	4/6
Mr. Xu Zhe	2/6
Mr. Bai Liming	5/6
Dr. Wu Bo	6/6
Mr. Qi Qigong	0/6
Mr. Pan Jiaren	4/6
Ms. Tan Guoan	1/6
Dr. Xia Peng (appointed on 31 March 2006)	0/4
Mr. Liu Zhiyong (appointed on 13 October 2006)	1/2
Mr. Ye Yongdong (resigned on 13 October 2006)	1/4
Mr. Lu Dongtao (resigned on 31 March 2006)	0/2

Corporate Governance Report

Directors	**Attendance**
Independent Non-executive Directors	
Mr. Chen Jing (appointed on 13 October 2006)	2/2
Mr. Ye Lu (appointed on 13 October 2006)	2/2
Mr. Liu Dongdong	6/6
Mr. Wong Ying Ho, Kennedy (resigned on 13 October 2006)	2/4
Mr. Ng Kin Fai, Francis (resigned on 13 October 2006)	4/4

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 of the Company and the management.

Apart from its statutory responsibilities, the Board of Directors approves the Group's strategic plan, annual budget, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks.

The Board of Directors meets regularly and as and when required. Notices and agendas are prepared under the instruction of the Chairman of the Company and distributed to the Board members within reasonable time before the meetings. Relevant meeting papers are also sent to Directors well before the meetings, informing them of the background and giving explanation on matters to be brought before the Board. All Directors are giving the opportunity to include matters in the agendas for board meetings. To ensure the Directors making decisions objectively in the interests of the Company, the Company's articles of association provide that any Director shall abstain from voting on any resolutions in which he or his associates is/are materially interested nor be counted in the quorum of the meeting. Draft and final versions of the minutes of board meetings are sent to all Directors for their comment and records respectively within a reasonable time and are kept by the Company.

Chairman and chief executive

The roles of the Chairman and the Chief Executive of the Company are segregated and are not exercised by the same individual.

Corporate Governance Report

Terms of appointment of non-executive Directors

The term of the existing appointment of all the non-executive Directors (including the independent non-executive Directors) commenced on 13 October 2006. All of their existing appointments will expire on 30 June 2009 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. Chen Jing and other members include Dr. Chen Xinxiang, Mr. Ye Lu and Mr. Liu Dongdong. Dr. Chen Xinxiang is the Chairman of the Board and an executive Director while the other three committee members are independent non-executive Directors.

The primary role and function of the remuneration committee include (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. 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.

A meeting was held during the year under review to review the remuneration packages of executive Directors and the director's fees of the independent non-executive Directors. All members of the remuneration committee, namely Dr. Chen Xinxiang, Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Liu Dongdong attended the said meeting which was held before the appointments of Mr. Chen Jing and Mr. Ye Lu, and the resignations of Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis.

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.

Corporate Governance Report

The Board of Directors had convened a meeting during the year under review regarding the nominations of Mr. Liu Zhiyong to be appointed as a non-executive Director and Mr. Chen Jing and Mr. Ye Lu as independent non-executive Directors. Dr Chen Xinxiang, Dr Wang Xu, Ms Zhang Yan, Mr Xing Dehai, Mr Xu Zhe, Mr. Bai Liming, Dr Wu Bo, Mr Ng Kin Fai, Francis and Mr. Liu Dongdong attended the said meeting.

During the meeting, the Board of Directors thoroughly discussed the selection of the candidates for directorships and considered criteria including the character, experience, integrity and competence commensurate with the position as a director.

Auditors' Remuneration

During the year under review, the Company had paid to the external auditor of the Company, Deloitte Touche Tohmatsu, approximately RMB850,000 and RMB452,000 for audit service fee and non-audit service fee respectively. The non-audit service provided by the external auditor was reviewing quarterly results of the Company.

Audit Committee

The Company has 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. Chen Jing, Mr. Ye Lu and Mr. Liu Dongdong. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Chen Jing.

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. Chen Jing (appointed on 13 October 2006)	1/1
Mr. Ye Lu (appointed on 13 October 2006)	0/1
Mr. Liu Dongdong	4/4
Mr. Wong Ying Ho, Kennedy (resigned on 13 October 2006)	3/3
Mr. Ng Kin Fai, Francis (resigned on 13 October 2006)	3/3

All of the Group's unaudited quarterly and interim results and annual audited results during the year under review 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.

Corporate Governance Report

Directors' and Auditors Responsibilities for Accounts

The Directors' acknowledgement of their responsibilities for preparing the accounts and a statement by the external auditors regarding their reporting responsibilities are set out on page 31 of the annual report.

Internal Control

The Board of Directors has conducted a review of the effectiveness of the system of internal control of the Group periodically to ensure the effective and adequate internal control system. The Board of Directors 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 31 December 2006.

Principal Activities

The Company acts as an investment holding company and the Group is 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 32 to the financial statements.

Results

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32 of the annual report.

The Board of Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

Property, Plant and Equipment

During the year, the Group incurred an aggregate of approximately RMB104,728,000 million in the acquisition of property, plant and equipment, which mainly comprised the construction in progress, 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 are set out in note 14 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

Directors' Report

Non-executive directors:

Mr. Li Minji
Mr. Xing Dehai
Mr. Xu Zhe
Mr. Bai Liming
Dr. Wu Bo
Mr. Qi Qigong
Mr. Pan Jiaren
Ms. Tan Guoan
Dr. Xia Peng (appointed on 31 March 2006)
Mr. Liu Zhiyong (appointed on 13 October 2006)
Mr. Ye Yongdong (resigned on 13 October 2006)
Mr. Lu Dongtao (resigned on 31 March 2006)

Independent non-executive directors:

Mr. Chen Jing (appointed on 13 October 2006)
Mr. Ye Lu (appointed on 13 October 2006)
Mr. Liu Dongdong
Mr. Wong Ying Ho, Kennedy (resigned on 13 October 2006)
Mr. Ng Kin Fai, Francis (resigned on 13 October 2006)

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 still considers each of the independent non-executive Directors to be independent.

Supervisors:

Ms. Liu Jian
Mr. Zhang Zhenlong
Mr. Yao Yuan (appointed on 13 October 2006)
Mr. Cheng Huajun (resigned on 13 October 2006)

All executive Directors have entered into service contracts with the Company on 6 December 2001 for a term of three years subject to renewal by agreement for one or more consecutive terms of three years. Mr. Yao Yuan has entered into service contract with the Company on 20 September 2005 for a term of two years and five months subject to renewal by agreement.

Directors' Report

In accordance with the provisions of the Company's Articles of Association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-appointment or re-election. In accordance with the provisions of the Companies Law in the People's Republic of China (the "PRC"), the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, all the directors' and supervisors' terms of office expired. Each of Dr. Chen Xinxiang, Dr. Wang Xu and Ms. Zhang Yan was re-elected as an executive director; each of Mr. Li Minji, Mr. Xing Dehai, Mr. Xu Zhe, Mr. Bai Liming, Mr. Qi Qigong, Mr. Pan Jiaren, Ms. Tan Guoan, Dr. Xia Peng was re-elected as a non-executive Director; Dr. Wu Bo (previously an executive Director) was re-elected and re-designated as a non-executive Director; Mr. Liu Zhiyong was elected as a non-executive Director; Mr. Liu Dongdong was re-elected as an independent non-executive Director; each of Mr. Chen Jing and Mr. Ye Lu was elected as an independent non-executive Director; and each of Ms. Liu Jian and Mr. Zhang Zhenlong was re-elected as a supervisor of the Company. Mr. Yao Yuan has been elected and appointed by the employees of the Company as a Supervisor pursuant to the Articles of Association of the Company.

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 31 December 2006, none of the Directors and chief executive of the Company had any interest and short position in shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of 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 as referred to in Rule 5.46 of the GEM Listing Rules.

Directors' Report

Long positions in the underlying shares – options granted under share option schemes

Name	Number of H Shares subject to options outstanding at 31 December 2006: Granted under the Pre-IPO Share Option Plan	Granted under the 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%

Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis resigned as independent non-executive Directors on 13 October 2006 and all the options held by them lapsed after three months from the date of resignation.

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 6 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 the terms and conditions of the Pre-IPO Share Option Plan, restrictions imposed by the relevant PRC laws and regulations and any conditions of the grant as stipulated by the Board of Directors:

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

Directors' Report

All of the above-mentioned share options (the "Share Options") granted under the share option scheme of the Company (the "Share Option Scheme") were granted on 17 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%	18 August 2005 to 17 August 2014
25%	18 August 2006 to 17 August 2014
25%	18 August 2007 to 17 August 2014
25%	18 August 2008 to 17 August 2014

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 2006:

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%

Directors' Report

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 31 December 2006:

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 （重慶宏信軟件有限責任公司）	Beneficial owner	10%
Dongguan City Shilongzhen Industrial Company （東莞市石龍鎮工業總公司）	Dongguan City Longxin Digital Technology Company Limited （東莞市龍信數碼科技有限公司）	Beneficial owner	40%
Fu Zengxue （付增學）	Beijing Hongxin Software Company Limited （北京宏信軟件有限公司）	Beneficial owner	40%

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 31 December 2006.

Directors' Report

AUDIT COMMITTEE

An audit committee was established with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee comprises three independent non-executive directors, namely Mr. Chen Jing, Mr. Ye Lu and Mr. Liu Dongdong. Mr. Chen Jing 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 2006 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 31(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 GEM Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 31(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.

Directors' Report

The auditors of the Company have also confirmed that the continuing connected transactions set out in note 31(i) to the financial statements:

(i) have received the approval of the Board of Directors;

(ii) are in accordance with the pricing policies of the Company if the transactions involve provisions of goods or services by the Company;

(iii) have been entered into in accordance with the relevant agreement governing the transactions; and

(iv) have not exceeded the cap disclosed in previous announcement(s).

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 had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 80% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 67% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 31% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 9% of the Group's total purchases.

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

Directors' Report

Auditors

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

On behalf of the Board

Dr. CHEN Xinxiang
Chairman

Beijing, the PRC,
23 March 2007

Supervisors' Report

To all shareholders,

In 2006, 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 2006, the Supervisory Committee held four meetings and participated in Board meetings to 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 comparatively 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 15 to the GEM Listing Rules 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 2006. The Supervisory Committee is of the view that, during the year under review, a sound accounting policy was followed in line with the current PRC 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 2006 financial report has, in all major aspects, fairly reflected the Company's financial status and operating results.

The Supervision Committee looks forward to further grow and innovations of the Company, with increasing profit growth in the coming year.

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 PRC
23 March 2007

Independent Auditor's 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 referred to as the "Group") set out on pages 32 to 87, which comprise the consolidated balance sheet as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 23rd March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Turnover	6	**223,171**	254,187
Cost of sales		**(168,207)**	(188,526)
Gross profit		**54,964**	65,661
Gain on disposal of a business	7	**18,278**	–
Gain on disposal of a joint, jointly controlled entity		**1,849**	–
Other income		**19,966**	21,864
Research and development costs		**(26,590)**	(21,173)
Marketing and promotional expenses		**(8,815)**	(9,171)
Administrative expenses		**(40,074)**	(46,174)
Interest on other loan wholly repayable within five years		**(251)**	(255)
Share of losses of associates		**(7,810)**	(2,398)
Share of loss of a jointly controlled entity		**–**	(806)
Profit before tax	8	**11,517**	7,548
Income tax expense	11	**(2,017)**	(3,118)
Profit for the year		**9,500**	4,430
Attributable to:			
Equity holders of the parent		**11,577**	4,332
Minority interests		**(2,077)**	98
		9,500	4,430
Earnings per share – Basic	13	**0.40 cents**	0.15 cents

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	14	**197,497**	141,446
Interests in associates	15	**23,828**	32,932
Interest in a jointly controlled entity	16	**–**	1,151
Available-for-sale investments	17	**1,350**	1,350
Deposits paid on acquisition of property, plant and equipment		**31,527**	10,340
		254,202	187,219
Current assets			
Inventories	18	**2,703**	17,005
Amounts due from customers for contract work	19	**24,972**	27,579
Trade and other receivables	20	**41,706**	46,713
Amounts due from associates and a jointly controlled entity		**90**	1,182
Bank deposits	20	**24,567**	63,555
Bank balances and cash	20	**341,485**	333,007
		435,523	489,041
Property, plant and equipment held for sale		**–**	1,265
		435,523	490,306
Current liabilities			
Trade and other payables	21	**68,862**	96,922
Customers' deposits for contract work		**45,301**	13,247
Taxation payable		**2,903**	4,597
Other loan – current portion	22	**10,000**	7,000
		127,066	121,766
Net current assets		**308,457**	368,540
		562,659	555,759

Consolidated Balance Sheet

At 31 December 2006

	NOTES	**2006** RMB'000	2005 RMB'000
Capital and reserves			
Share capital	23	**289,809**	289,809
Reserves	25	**269,849**	258,272
Equity attributable to equity holders of the parent		**559,658**	548,081
Minority interests		**3,001**	4,678
Total equity		**562,659**	552,759
Non-current liabilities			
Other loan	22	**–**	3,000
		562,659	555,759

The consolidated financial statements on pages 32 to 87 were approved and authorised for issue by the board of directors on 23 March 2007 and are signed on its behalf by:

CHAIRMAN	*CHIEF EXECUTIVE*
Dr. Chen Xinxiang	**Dr. Wang Xu**

Consolidated Statement Of Changes In Equity

For the year ended 31st December 2006

	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 2005	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
Profit for the year (total recognised income for the year)	–	–	–	–	11,577	11,577	(2,077)	9,500
Capital contribution from minority owner of a subsidiary	–	–	–	–	–	–	400	400
Transfer of statutory welfare fund	–	–	812	(812)	–	–	–	–
Profit appropriations	–	–	481	–	(481)	–	–	–
At 31st December 2006	**289,809**	**254,079**	**2,918**	**–**	**12,852**	**559,658**	**3,001**	**562,659**

Note: Pursuant to a notice in respect of the financial treatments under new Company Law（關於《公司法》施行後有關企業財務處理問題的通知）issued by the Minister of Finance, there will be no accrual of statutory public welfare fund in 2006. The remaining balance of statutory public welfare fund is transferred to statutory surplus reserve.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006	2005
	RMB'000	RMB'000
Operating activities		
Profit before tax	11,517	7,548
Adjustments for:		
Interest income	(2,727)	(1,705)
Interest expenses	251	255
Dividend income	–	(375)
Share of losses of associates	7,810	2,398
Share of loss of a jointly controlled entity	–	806
Gain on disposal of available-for-sale investments	–	(2,580)
Fair value gain on investments held for trading	(5,353)	(1,834)
Impairment of goodwill of a subsidiary	–	3,488
Depreciation	29,261	44,421
Loss on disposal of property, plant and equipment	85	609
Write down of inventories	10,180	8,312
Allowance for doubtful debts	1,596	4,890
Gain on disposal of a jointly controlled entity	(1,849)	–
Gain on disposal of a business	(18,278)	–
Operating cash flows before movements in working capital	32,493	66,233
Decrease (increase) in inventories	4,122	(5,551)
Decrease in amounts due from customers for contract work	21,753	19,370
(Increase) decrease in trade and other receivables	(2,203)	57,942
(Decrease) increase in trade and other payables	(34,412)	20,739
Increase (decrease) in customers' deposits for contract work	32,054	(8,765)
Net proceeds on trading of investments held for trading	5,353	1,834
Cash generated from operations	59,160	151,802
PRC income tax paid	(3,711)	(3,452)
Net cash from operating activities	55,449	148,350

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	**2006** **RMB'000**	2005 RMB'000
Investing activities			
Interest received		**2,727**	1,705
Dividend received from available-for-sale investments		**–**	375
Dividend received from an associate		**1,294**	–
Purchase of property, plant and equipment		**(88,603)**	(40,365)
Deposits paid on acquisition of property, plant and equipment		**(31,527)**	(9,682)
Proceeds from disposal of property, plant and equipment		**185**	288
Proceeds from disposal of available-for-sale investments		**8,614**	8,966
Proceeds from disposal of a business		**20,110**	–
Acquisition of a subsidiary	26	**–**	4,413
Capital contributions to associates		**–**	(7,224)
Decrease in amounts due from associates and a jointly controlled entity		**1,092**	3,488
Decrease (increase) in bank deposits for investing purpose		**38,988**	(10,555)
Net cash used in investing activities		**(47,120)**	(48,591)
Financing activities			
Interest paid		**(251)**	(255)
Capital contributions from minority owner of a subsidiary		**400**	800
Net cash from financing activities		**149**	545
Net increase in cash and cash equivalents		**8,478**	100,304
Cash and cash equivalents at 1st January		**333,007**	232,703
Cash and cash equivalents at 31st December, represented by bank balances and cash		**341,485**	333,007

Notes to the Financial Statements

For the year ended 31st December 2006

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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Notes to the Financial Statements

For the year ended 31st December 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	Group and Treasury Shares Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1st January 2007
2 Effective for annual periods beginning on or after 1st January 2009
3 Effective for annual periods beginning on or after 1st March 2006
4 Effective for annual periods beginning on or after 1st May 2006
5 Effective for annual periods beginning on or after 1st June 2006
6 Effective for annual periods beginning on or after 1st November 2006
7 Effective for annual periods beginning on or after 1st March 2007
8 Effective for annual periods beginning on or after 1st January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards 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.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary 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 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 consolidated balance sheet as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary 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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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 net assets 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

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.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Technology service contracts

When the outcome of a contract for the technology service of network systems can be estimated reliably, revenue and costs are recognised by 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 this 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.

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 expenses in the period in which they are incurred.

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

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Installation contracts (continued)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as customers' deposits for contract work. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

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 consolidated 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 subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 consolidated income statement in the year in which the item is derecognised.

Borrowing costs

All borrowing costs are recognised as and included in the consolidated 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.

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

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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 associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised 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 2006

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 the respective 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 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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments held for trading, 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.

Investment held for trading

At each balance sheet date subsequent to initial recognition, investments held for trading 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 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (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, bank deposits 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 financial assets at fair value through profit or loss, held to maturity investments and loans and receivables. 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 profit or loss in subsequent periods.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

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.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities including other loan, 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.

Financial liabilities are derecognised 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 and 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.

Notes to the Financial Statements

For the year ended 31st December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Share options granted and vested prior to 1 January 2005

The Group did not recognise the financial effect of share options until they were exercised. Upon the exercise of the share options, the resulting shares issued are recorded 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 in the share premium account. Options which lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its 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.

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 within next financial year as discussed below.

Notes to the Financial Statements

For the year ended 31st December 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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.

Technology service 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 loan, trade and other receivables, amounts due from associates and a jointly controlled entity, bank balances, bank deposits and trade and other payables. 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.

Notes to the Financial Statements

For the year ended 31st December 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

As at 31st December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors 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, credit approvals and other 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.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Market risk

a) *Interest rate risk*

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank deposits. The directors consider the Group's exposure to interest rate risk is not significant as the bank deposits are placed with short maturity periods.

Fair value interest rate risk

During the year, the Group has involved in trading of unit funds of which make investments in fixed interest rate government bonds, leading the Group's exposure to fair value interest rate risk. The Group has disposed of those held for trading investments before year end.

b) *Other price risk*

During the year, the Group has involved in trading of investments which exposed the Group to equity security price risk. The Group has delegated a team responsible for closely monitoring the fluctuation of the price so as to minimise the price risk exposure. The Group has disposed of those held for trading investments before year end.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

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 related entities.

Notes to the Financial Statements

For the year ended 31st December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Business segments for the year are as follows:

	2006		2005	
	Turnover	**Results**	Turnover	Results
	RMB'000	**RMB'000**	RMB'000	RMB'000
e-Government technology services	**201,691**	**43,810**	225,099	54,333
e-Commerce technology services	**21,480**	**(24,346)**	29,088	(24,454)
	223,171	**19,464**	254,187	29,879
Gain on disposal of a business engaged in e-commence technology service		**18,278**		–
Gain on disposal of a jointly controlled entity engaged in other business		**1,849**		–
Other income		**19,966**		21,864
Unallocated administrative expenses		**(39,979)**		(40,736)
Interest on other loan wholly repayable within five years		**(251)**		(255)
Share of losses of associates engaged in other businesses		**(7,810)**		(2,398)
Share of loss of a jointly controlled entity engaged in other business		**–**		(806)
Profit before tax		**11,517**		7,548
Income tax expense		**(2,017)**		(3,118)
Profit for the year		**9,500**		4,430

Notes to the Financial Statements

For the year ended 31st December 2006

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.

7. GAIN ON DISPOSAL OF A BUSINESS

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 the third parties for cash consideration of US$2,500,000. The relevant computer equipment, network equipment, office equipment, furniture and fixtures in relation to the Group's division of online payment services of RMB1,265,000 was carried as property, plant and equipment held for sale as at 31st December, 2005. The transfer of business was completed on 18th January, 2006 and a gain of RMB18,278,000 was recognised by the Group for the current year.

Notes to the Financial Statements

For the year ended 31st December 2006

8. PROFIT BEFORE TAX

	2006 RMB'000	2005 RMB'000
Profit before tax has been arrived at after charging:		
Directors' and supervisors' remuneration (note 9)	**2,007**	1,643
Other staff costs	**52,930**	47,194
Other staff's retirement benefit scheme contributions	**3,752**	3,203
	58,689	52,040
Less: Staff costs included in research and development costs	**(15,192)**	(8,920)
Staff costs included in contract work	**(18,050)**	(8,059)
	25,447	35,061
Depreciation	**48,407**	62,727
Less: Depreciation included in research and development costs	**(2,128)**	(1,055)
Depreciation capitalised in contract work	**(19,146)**	(18,306)
	27,133	43,366
Operating lease rentals in respect of		
– cable network	**11,695**	13,964
– land and buildings	**10,892**	9,493
	22,587	23,457
Less: Operating lease rentals included in research and development costs	**(675)**	(752)
Operating lease rentals capitalised in contract work	**(9,364)**	(6,204)
	12,548	16,501
Allowance for doubtful debts	**1,596**	4,890
Auditors' remuneration	**1,302**	1,014
Cost of inventories recognised as expenses	**40,768**	52,954
Impairment of goodwill of an associate (included in share of losses of associates)	**1,059**	–
Impairment of goodwill of a subsidiary (included in administrative expenses)	**–**	3,488
Loss on disposal of property, plant and equipment	**85**	609
Net foreign exchange loss	**–**	522
Share of tax of an associate (included in share of losses of associates)	**193**	134
Write down of inventories	**10,180**	8,312
and after crediting:		
Dividend income from available-for-sale investments	**–**	375
Gain on disposal of available-for-sale investments	**–**	2,580
Government grants	**9,593**	14,691
Interest income from bank deposits	**2,727**	1,705
Fair value gain on investments held for trading	**5,353**	1,834

Notes to the Financial Statements

For the year ended 31st December 2006

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2006	2005
	RMB'000	RMB'000
Fees		
– independent non-executive directors	**232**	258
– executive directors, other non-executive directors and supervisors	**–**	–
Other emoluments for non-executive directors	**–**	–
	232	258
Other emoluments for executive directors		
– basic salaries and allowances	**1,687**	1,179
– retirement benefit scheme contributions	**32**	28
	1,719	1,207
Other emoluments for supervisors		
– basic salaries and allowances	**55**	172
– retirement benefit scheme contributions	**1**	6
	56	178
	2,007	1,643

Notes to the Financial Statements

For the year ended 31st December 2006

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The emoluments paid or payable to each of the 23 (2005: 19) directors and supervisors were as follows:

		Other emoluments		
	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total 2006 RMB'000
Directors				
Dr. Chen Xinxiang	–	515	8	523
Dr. Wang Xu	–	420	8	428
Ms. Zhang Yan	–	376	8	384
Mr. Li Minji	–	–	–	–
Mr. Xing Dehai	–	–	–	–
Mr. Xu Zhe	–	–	–	–
Mr. Bai Liming	–	–	–	–
Dr. Wu Bo	–	376	8	384
Mr. Xia Peng (appointed on 31st March 2006)	–	–	–	–
Mr. Pan Jiaren	–	–	–	–
Mr. Qi Qigong	–	–	–	–
Mr. Liu Zhiyong (appointed on 13th October 2006)	–	–	–	–
Ms. Tan Guoan	–	–	–	–
Mr. Lu Dongtao (resigned on 31st March 2006)	–	–	–	–
Mr. Ye Yongdong (resigned on 13th October 2006)	–	–	–	–
Ms. Chen Jing (appointed on 13th October 2006)	8	–	–	8
Mr. Ye Lu (appointed on 13th October 2006)	8	–	–	8
Mr. Liu Dongdong	50	–	–	50
Mr. Wong Ying Ho, Kenndy (resigned on 13th October 2006)	83	–	–	83
Mr. Ng Kin Fai, Francis (resigned on 13th October 2006)	83	–	–	83
Supervisors				
Ms. Liu Jian	–	–	–	–
Mr. Zhang Zhenlong	–	–	–	–
Mr. Yao Yuan (appointed on 13th October 2006)	–	55	1	56
Mr. Cheng Huajun (appointed on 13th October 2006)	–	–	–	–
	232	1,742	33	2,007

Notes to the Financial Statements

For the year ended 31st December 2006

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

		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 2006

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included four (2005: two) executive directors of the Company, whose emoluments are included in note 9 above. The aggregate emoluments of the remaining one (2005: three) highest paid individuals are as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	314	1,535
Retirement benefit scheme contributions	7	–
	321	1,535

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.

11. 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% (2005: 15%) of the estimated assessable profit for the year.

In addition, pursuant to an announcement made by the State Administration of Taxation, certain entities including the Company qualify to apply for a reduction of income tax rate to 10%, subject to the approval from the government in the following financial year, as an incentive and support to their software development activities in the PRC. As a result, a tax credit of approximately RMB1,558,000 for the year ended 31st December 2005 is recognised in the current year and a tax credit of approximately RMB1,594,000 for the year ended 31st December 2004 is recognised in last year.

	2006	2005
	RMB'000	RMB'000
The charge (credit) comprises:		
PRC income tax		
Current	3,575	4,712
Tax credit for previous year	(1,558)	(1,594)
	2,017	3,118

Notes to the Financial Statements

For the year ended 31st December 2006

11. INCOME TAX EXPENSE (continued)

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

	2006	2005
	RMB'000	RMB'000
Profit before tax	**11,517**	7,548
Tax at domestic income tax rate of 15% (2005: 15%)	**1,728**	1,132
Tax effect of expenses that are not deductible in determining taxable profit	**2,266**	2,747
Tax effect of income not taxable for tax purpose	**(2,688)**	(275)
Tax effect of tax losses of subsidiaries not recognised	**1,098**	589
Tax effect of share of profit of an associate	**(193)**	(134)
Tax effect of tax losses of associates and a jointly controlled entity not recognised	**1,364**	653
Tax credit for previous year	**(1,558)**	(1,594)
Tax expense for the year	**2,017**	3,118

At the balance sheet date, the subsidiaries have unused tax losses of approximately RMB23,000,000 (2005: RMB16,000,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses will expire before 2011.

12. DIVIDEND

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

13. EARNINGS PER SHARE

The calculation of the basic earnings 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 RMB11,577,000 (2005: RMB4,332,000) and 2,898,086,091 (2005: 2,898,086,091) shares in issue during the year.

No diluted earnings per share has been presented in 2006 and 2005 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.

Notes to the Financial Statements

For the year ended 31st December 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Leasehold improvements	Network equipment	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress (note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1st January 2005	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	(1,410)	–	(2,784)	(5)	–	–	(4,199)
At 31st December 2005	85,125	18,310	350,595	4,587	694	500	459,811
Additions	14,124	1,730	10,405	1,433	–	77,036	104,728
Transfers	–	–	7,523	–	–	(7,523)	–
Disposals	(2,500)	–	(776)	(135)	–	–	(3,411)
At 31st December 2006	96,749	20,040	367,747	5,885	694	70,013	561,128
Depreciation							
At 1st January 2005	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	(610)	–	(2,319)	(5)	–	–	(2,934)
At 31st December 2005	82,131	10,043	223,813	2,187	191	–	318,365
Provided for the year	9,175	824	37,408	873	127	–	48,407
Eliminated on disposals	(2,289)	–	(743)	(109)	–	–	(3,141)
At 31st December 2006	89,017	10,867	260,478	2,951	318	–	363,631
Net book values							
At 31st December 2006	7,732	9,173	107,269	2,934	376	70,013	197,497
At 31st December 2005	2,994	8,267	126,782	2,400	503	500	141,446

Note: Owner-occupied leasehold land is included in property, plant and equipment because the allocations between the land and buildings elements cannot be made reliably.

Notes to the Financial Statements

For the year ended 31st December 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated 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%
Leasehold improvements	Over the period of the respective leases

15. INTERESTS IN ASSOCIATES

	2006	2005
	RMB'000	RMB'000
Cost of unlisted investment in associates	**41,955**	43,014
Share of post-acquisition loss	**(18,127)**	(10,082)
	23,828	32,932

Notes to the Financial Statements

For the year ended 31st December 2006

15. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates, which are private limited companies established and operating in the PRC, at 31st December 2006 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
紫光信業投資股份有限公司 (Ziguang Information Industry Investment Company Limited, "Ziguang")	23%	Manufacture and sale of smart IC cards and provision of related system integration services

Note: These entities are subsidiaries of BSAM.

Notes to the Financial Statements

For the year ended 31st December 2006

15. INTERESTS IN ASSOCIATES (continued)

Movement of goodwill of associates included in the cost of investments in associates is analysed as follows:

	2006	2005
	RMB'000	RMB'000
Cost		
At 1st January	**1,059**	2,070
Elimination of accumulated amortisation upon application of HKFRS 3	**–**	(104)
Acquisition	**–**	1,059
Transfer to goodwill in a subsidiary	**–**	(1,966)
At 31st December	**1,059**	1,059
Amortisation and impairment		
At 1st January	**–**	104
Elimination of accumulated amortisation upon application of HKFRS 3	**–**	(104)
Impairment loss identified during the year	**1,059**	–
At 31st December	**1,059**	–
Carrying values	**–**	1,059

Notes to the Financial Statements

For the year ended 31st December 2006

15. INTERESTS IN ASSOCIATES (continued)

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

	2006	2005
	RMB'000	RMB'000
Total assets	**109,328**	156,511
Total liabilities	**(55,153)**	(65,977)
Net assets	**54,175**	90,534
Group's share of net assets of associates	**23,828**	31,873
Turnover	**52,553**	38,398
Loss for the year	**(30,215)**	(8,156)
Group's share of losses of associates for the year	**(6,751)**	(2,652)
Impairment of goodwill of an associate	**(1,059)**	–
Gain on dilution of interests in associates	**–**	254
Share of losses of associates as shown in the consolidated income statement	**(7,810)**	(2,398)

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of an associate, extracted from the relevant management accounts of the associate, both for the year and cumulatively, is as follows:

	2006	2005
	RMB'000	RMB'000
Unrecognised share of loss of an associate for the year	**932**	–
Accumulated unrecognised share of loss of an associate	**932**	–

Notes to the Financial Statements

For the year ended 31st December 2006

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006	2005
	RMB'000	RMB'000
Cost of unlisted investment	–	4,000
Share of post-acquisition loss	–	(2,849)
Share of net assets	–	1,151

Pursuant to an agreement entered into by the Company and 北京中佳訊通信設備有限公司 (Beijing Zhongjiaxun Communication Equipment Co., Ltd.) during the year, the Group disposed of all its equity interest of 40% in 北京中佳訊信息技術有限公司 (China BPS Information Technology Co., Ltd.) to Beijing Zhongjiaxun Communication Equipment Co., Ltd. for an amount of RMB3,000,000. A gain on disposal of RMB1,849,000 has been recognised in the consolidated income statement for the current year.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	RMB'000	RMB'000
Unlisted equity investments, at cost	**1,350**	1,350

The above investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC and British Virgin Islands. 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.

Notes to the Financial Statements

For the year ended 31st December 2006

17. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Details of the investments at 31st December 2006 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 (UCAP Technologies 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

18. INVENTORIES

	2006	2005
	RMB'000	RMB'000
Raw materials	**2,018**	1,778
Merchandise	**685**	15,227
	2,703	17,005

Notes to the Financial Statements

For the year ended 31st December 2006

19. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2006 RMB'000	2005 RMB'000
Contract costs incurred to date	**211,806**	77,831
Recognised profits less recognised losses	**48,608**	7,951
	260,414	85,782
Less: Progress billings	**(235,442)**	(58,203)
	24,972	27,579

20. OTHER FINANCIAL ASSETS

(1) Trade and other receivables

	2006 RMB'000	2005 RMB'000
Trade receivables		
– a fellow subsidiary	**1,760**	1,370
– other state-controlled entities and the PRC government	**13,987**	6,160
– others	**3,032**	12,574
	18,779	20,104
Other receivables, deposits and prepayments	**22,927**	26,609
	41,706	46,713

Notes to the Financial Statements

For the year ended 31st December 2006

20. OTHER FINANCIAL ASSETS (continued)

(1) Trade and other receivables (continued)

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

Age	**2006**	2005
	RMB'000	RMB'000
0 to 60 days	**11,589**	6,162
61 to 90 days	**251**	–
91 to 180 days	**494**	3,486
Over 180 days	**6,445**	10,456
	18,779	20,104

(2) Bank deposits

Bank deposits carry fixed interest rates which range from 1.98% to 2.43% with maturity periods within three to six months.

(3) Bank balances and cash

Bank balances carry interest at a market rate of 0.72%.

Notes to the Financial Statements

For the year ended 31st December 2006

21. TRADE AND OTHER PAYABLES

	2006	2005
	RMB'000	RMB'000
Trade payables		
– a fellow subsidiary	**–**	526
– others	**5,679**	8,594
	5,679	9,120
Government grants not recognised as income	**26,188**	24,489
Other payables and accrued expenses	**27,736**	55,076
Customers' deposits	**9,259**	8,237
	68,862	96,922

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

Age	**2006**	2005
	RMB'000	RMB'000
0 to 60 days	**1,976**	1,918
61 to 90 days	**213**	–
91 to 180 days	**57**	4,717
Over 180 days	**3,433**	2,485
	5,679	9,120

Notes to the Financial Statements

For the year ended 31st December 2006

22. OTHER LOAN

	2006 RMB'000	2005 RMB'000
Carrying amount repayable:		
Within one year	**10,000**	7,000
More than one year, but not exceeding two years	**–**	3,000
	10,000	10,000
Less: Amount due within one year and shown under current liabilities	**10,000**	7,000
Amount due after one year	**–**	3,000

The loan is granted by the PRC government, denominated in Renminbi, unsecured and bears interest at floating rate at 1 year time deposit rate plus 0.3% and the average interest rate is 2.55% (2005: 2.55%) per annum for the year ended 31st December 2006.

23. 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 2005, 31st December 2005 and 31st December 2006	2,123,588,091	774,498,000	289,809

Notes to the Financial Statements

For the year ended 31st December 2006

24. 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 2005	Lapsed during the year	Outstanding at 31st December 2005	Lapsed during the year	**Outstanding at 31st December 2006**
Directors	10,149,400	–	10,149,400	–	**10,149,400**
Supervisors	3,795,950	–	3,795,950	(1,286,500)	**2,509,450**
Senior management	4,836,620	–	4,836,620	–	**4,836,620**
Senior advisors	2,619,500	–	2,619,500	–	**2,619,500**
Advisors	4,309,930	–	4,309,930	(1,501,020)	**2,808,910**
Other employees	23,040,750	(3,061,095)	19,979,655	(497,860)	**19,481,795**
	48,752,150	(3,061,095)	45,691,055	(3,285,380)	**42,405,675**

The options outstanding at the end of the year have a remaining contractual life of 5 years (2005: 6 years). None of the pre-IPO share options has been exercised during the year.

Notes to the Financial Statements

For the year ended 31st December 2006

24. SHARE OPTIONS (continued)

(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 2006

24. 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 2005	Lapsed during the year	Outstanding at 31st December 2005	Lapsed during the year	**Outstanding at 31st December 2006**
Directors	12,962,000	–	12,962,000	–	**12,962,000**
Supervisors	4,398,000	–	4,398,000	(1,466,000)	**2,932,000**
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	(918,000)	**2,384,000**
Other employees	23,822,000	(3,093,000)	20,729,000	(604,000)	**20,125,000**
	64,914,000	(3,093,000)	61,821,000	(2,988,000)	**58,833,000**

The options outstanding at the end of the year have a remaining contractual life of 8 years (2005: 9 years).

The financial impact of all the above 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 2006

25. 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).

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.

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.

26. ACQUISITION OF A SUBSIDIARY

On 14th March 2005 and 18th March 2005, the Company entered into agreements with four investors of Beijing Co-Create Open Source Software Co., Ltd. ("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 2006

26. 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

Notes to the Financial Statements

For the year ended 31st December 2006

26. ACQUISITION OF A SUBSIDIARY (continued)

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 31st December 2005.

If the acquisition had been completed on 1st January 2005, total group revenue and profit for the year ended 31st December 2005 would have been approximately RMB254,779,000 and approximately RMB4,124,000, respectively. 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.

27. MAJOR NON-CASH TRANSACTIONS

During year 2006, the Group disposed of its interest in a joint controlled entity to Beijing Zhongjiaxun Communication Equipment Co., Ltd. for a consideration of RMB3,000,000. The consideration amount was utilised as the trade deposits paid for the services to be rendered by China BPS Information Technology Co., Ltd., the subsidiary of Beijing Zhongjiaxun Communication Equipment Co., Ltd. from then on.

During year 2005, 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.

28. 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:

	2006	2005
	RMB'000	RMB'000
Land and buildings		
Within one year	**9,620**	2,530
In the second to fifth years inclusive	**4,275**	1,909
	13,895	4,439

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 2006

29. CAPITAL COMMITMENTS

	2006 RMB'000	2005 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	**16,111**	70,013
– formation of a new joint venture (note a)	**30,000**	30,000
– investment in an associate	**–**	56,000
– other investments	**–**	1,300
	46,111	157,313

Note:

(a) 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.

30. 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 2006

31. RELATED PARTY DISCLOSURES

(i) Transactions with holding company and fellow subsidiaries

Related party	**Nature of transactions**	Notes	**2006** **RMB'000**	2005 RMB'000
Holding company				
CNC Beijing Communication Corporation ("CNC Beijing")	Dedicated circuit leasing services paid	(a)	**7,133**	7,081
	Telephone related services paid	(b)	**1,281**	531
Fellow subsidiaries				
Capnet Company Limited ("Capnet")	Comprehensive services income received	(c)	**7,100**	5,302
Beijing IC Design Park Co., Ltd. ("BICD")	Rental paid for office premises	(d)	**5,702**	4,976

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 30th April 2006, the Company and BB-BTC entered into a renewal agreement to extend the lease term to 30th June 2007.

(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.

On 20th December 2006, the Company and Capnet entered into a new agreement under which the Company is to provide the network system and the related maintenance service to Capnet for its own use for a term of 3 years since 1st January 2007. The service income with be RMB670,000 per month.

Notes to the Financial Statements

For the year ended 31st December 2006

31. RELATED PARTY DISCLOSURES (continued)

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

Notes: (continued)

(d) On 23rd January 2003, the Company entered into an agreement with BICD, 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. The lease period was extended to 31st March 2006. On 14th March 2006, the Company entered into a new lease agreement with BICD, pursuant to which the Company leases from BICD the office premises at an annual rent of approximately RMB4,654,000 for the period from 1st April 2006 to 31st March 2007 and approximately RMB4,327,000 for the period from 1st April 2007 to 31st March 2008.

In addition, Beijing Co-Create entered into an agreement with BICD 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 acquisition to 31st December 2005.

(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 RMB201,691,000 (2005: RMB225,099,000) 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.

Notes to the Financial Statements

For the year ended 31st December 2006

31. RELATED PARTY DISCLOSURES (continued)

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

Except for amount of customers' deposits for contract work of approximately RMB45,301,000 (2005: RMB13,247,000) as at 31st December 2006, those transactions as disclosed above, and certain balances disclosed in respective notes to the consolidated 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) Amount due from an associate

The amount due from an associate is unsecured, non-interest bearing and is repayable on demand.

(iv) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	RMB'000	RMB'000
Short-term benefits	**3,244**	2,697
Post-employment benefits	**48**	44
	3,292	2,741

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Financial Statements

For the year ended 31st December 2006

32. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December 2006 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
Directly held					
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
首都信息科技發展有限公司 (Capinfo Technology Development Co., Ltd.)	Private limited company	PRC	RMB50,000,000	100%	Developing software; providing technical service; sale of hardware and software and investment holding

Notes to the Financial Statements

For the year ended 31st December 2006

32. PARTICULARS OF SUBSIDIARIES (continued)

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
Directly held (continued)					
北京城市之窗科技發展有限公司 (Beijing City Technology Development Co., Ltd.)	Private limited company	PRC	RMB300,000	100%	Providing information exchange platform service
北京體育科技有限公司 (Beijing Sports Technology Co., Ltd.)	Private limited company	PRC	RMB10,000,000	100%	Providing sports related information service system; developing sports related equipment and engineering projects
Indirectly held					
北京宏信軟件有限公司 (Beijing Hongxin Software Development Co., Ltd.)	Private limited company	PRC	RMB1,000,000	60%	Developing, sale and implementing software and providing related technical services

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

Financial Summary

	Year ended 31st December,				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	237,474	279,565	241,455	254,187	**223,171**
Profit before taxation	12,912	8,049	2,378	7,548	**11,517**
Taxation	(2,410)	(2,048)	(4,782)	(3,118)	**(2,017)**
Profit (loss) for the year	10,502	6,001	(2,404)	4,430	**9,500**
Attributable to:					
Equity holders of the parent	10,019	5,949	(1,806)	4,332	**11,577**
Minority interests	483	(52)	(598)	98	**(2,077)**
	10,502	6,001	(2,404)	4,430	**9,500**

	As at 31st December,				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	703,853	661,981	643,349	677,525	**689,725**
Total liabilities	(163,755)	(113,882)	(98,218)	(124,766)	**(127,066)**
Minority interests	(492)	(2,544)	(1,282)	(4,678)	**(3,001)**
Capital and reserves	539,606	545,555	543,749	548,081	**559,658**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting ("AGM") of Capinfo Company Limited (the "Company") will be held at Conference Room, 12th Floor, Quantum Silver Plaza, 23 Zhichun Road, Haidian District, Beijing, The People's Republic of China on Friday, 22 June 2007 at 9:30 a.m. for the following purposes:

As ordinary resolutions

1. To consider and approve the supervisors' report for the year 2006;

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 31 December 2006;

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

4. To consider and approve the 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
30 March 2007

* *For identification purpose only*

Notice of Annual General Meeting

Notes:

1. The register of shareholders of the Company will be closed from 22 May 2007 (Tuesday) to 21 June 2007 (Thursday) (both days inclusive), during which no transfer of the Company's H shares will be effected. The holder of Shares whose name appears on the register of shareholders of the Company at 4:00 p.m. on 21 May 2007 (Monday) 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 scheduled for the commencement of 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 1 June 2007 (Friday). The reply slip may be delivered by hand or by post.