

CAPINFO

CAPINFO COMPANY LIMITED

(a joint stock limited company established in the People's Republic of China with limited liability)
(Stock Code:8157)



Beijing 2008
TMG



Beijing 2008 Olympic Games
Multi-Lingual Services Supplier

07

Annual Report 2007



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at "www.hkgem.com" in order to obtain up-to-date information on GEM-listed issuers.

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

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Corporate Information

Registered Office	No. 11 Xi San Huan Zhong Road Beijing 100036 The People's Republic of China (the "PRC")
Principal place of business in Hong Kong	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. YU Decheng, AHKSA, CPA Australia (于德誠先生)
Compliance Officer	Ms. ZHANG Yan (張延女士)
Qualified Accountant	Mr. YU Decheng, AHKSA, CPA Australia (于德誠先生)

Corporate Information

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)

Remuneration Committee

Mr. CHEN Jing (Chairman)
(陳靜先生)
Mr. YE Lu
(葉路先生)
Mr. LIU Dongdong
(劉東東先生)
Mr. BAI Liming
(白利明先生)
Mr. Li Min Ji
(李民吉先生)

Authorised Representatives

Ms. ZHANG Yan
(張延女士)
Mr. YU Decheng, AHKSA, CPA Australia
(于德誠先生)

Hong Kong legal advisers

Iu, Lai & Li

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
Guangdong Development Bank
Sigma Building
49 Zhichun Road
Haidian District
Beijing, PRC

Chairman's Statement

The Group has realized remarkable development in all respects in 2007. The Group's foundation business progressed steadily as a whole and significant breakthroughs were made in the Olympic Games projects. Operational management is aggressive in pursuing better results and integrating the resources with a view to exploring the path for the development of marketization.

During this year, all of our foundation business has become more established and innovative. Almost 9.6 million insured benefited from the stable operation of the Beijing Medical Insurance Information System. Beijing private network of e-Government has actively enhanced its network configuration and provided more innovative services, which have increased the Group's market competitiveness in IT services business. With community services

platforms such as community services hotlines and the community services portal website, Beijing Community Service Information System has become a link between the Government, community and the public in respect of information technology. Beijing Hotline and the outsourcing of e-government affairs call services has become an indispensable tool for the Group in facing the community and providing public services. The Group has formally become the outsourcing service provider for the portal website of the Beijing Municipal Government, "Beijing-China", which symbolizes the Group's revolutionary breakthroughs in the fields of value-added and high-end IT services.

The Group has been receiving good news from the Olympic projects. During the year, the Group has formally become the multilingual service provider of the 2008 Beijing Olympic Games and has won the tenders for a number of Olympic projects consecutively.

Technology services and management of the informatization application projects have reached an international standard. Beijing Medical Insurance Information System received "Top 10 Best for Information Application in Beijing" (信息北京十大應用成果獎) and "2007 Outstanding Award of International Project Management" (2007年國際項目管理大獎卓越獎). The Group also awarded a CMMI3 (Capability Maturity Model Integration for Software) assessment certificate.

2008 is a year for the Olympic Games as well as an important year for the Group's informatization construction to face and serve the Olympics. The Group has set out some major objectives for its future development, which include, completing all the technology protection work properly during the Olympic Games period, establishing an outstanding international profile, developing innovative products and exploring new streams for profit growth.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to the shareholders of Capinfo Company Limited and other people for their full care and support during the year and to all the dedicated frontline staff.

Li Minji

Chairman

Beijing, the PRC,
25 March 2008



Management Discussion and Analysis

Financial Review

The board of Directors (the “Board”) of the Company announces that, for the year ended 31 December 2007, the Company and its subsidiaries (collectively the “Group”) recorded an audited turnover of approximately RMB288.3 million, representing an increase of approximately 29% over that of last year, and a gross profit margin of 32%, as compared with 25% for last year. The Group has attained an audited profit attributable to equity holders of the parent of approximately RMB47.1 million for the year under review, representing an increase of approximately 307% over that of last year.

Other income includes government subsidies, interests and investment income recorded during the period under review.

The Group’s current ratio, defined as total current assets over total current liabilities, maintained at a relatively high level of over 3.0 while the gearing ratio, defined as total borrowing over net assets, stayed at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.

As at 31 December 2007, the Group had unsecured borrowings of RMB9.09 million, bearing interests at an average interest rate of 2.55%, which will be repaid within 11 years commencing from this year. Cash and bank deposits of the Group as at 31 December 2007 were mainly derived from shareholders’ contribution and working capital generated from operations.

As at 31 December 2007, the Group had no assets pledged and had no significant contingent liabilities.

As at 31 December 2007, the Group had capital commitment of approximately RMB2.9 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 Medical Insurance System**

During the year, the Medical Insurance System continued to optimize its function and enhance the services capacity. It successfully completed three core projects of “One Elderly & One Kid”, “Control of Clinical Charges” and “Uniform of Services Platform Construction”, provided services to nearly 9,600,000 policyholders, and laid a solid foundation of the stable operation of IT services, which targeted at the medical and hygiene industry, for the future systems.

During the year, The Beijing Medical Insurance Information System was awarded the “2006 Top 10 Best for Information Application in Beijing” (2006信息北京十大應用成果獎) by the Beijing Municipal Information Office and the Propaganda Division of the Beijing Municipal Committee, and was granted the “2007 Outstanding Award of International Project Management” (2007年國際項目管理大獎卓越獎) by the International Project Management Award Committee in Poland, which clearly show that the Group’s capacity of implementing safeguard and services has attained the international advance level.

- **The e-Government Network**

During the year, the e-Government Cable Network was contracted 71 networks of various government departments, total number of units accessed amounted to 3,700, and the system operated stably in general. The Group made efforts in enhancing the network management, customer satisfaction, operation quality and standardizing services grading management. It proactively carried



out services innovation and market exploration, and the results were satisfactory, which helped to strengthen the market competitiveness of the IT services business of the Group.

During the year, the e-Government network completed the network provision and maintenance services of the contracted projects, and successfully provided important network security services for the “Good Luck Beijing Test Competition”, “The 17th National Congress of the Communist Party of China”, and events for “2007 Spring Festival”, “May 1st Holiday” and “October 1st Holiday”.

Management Discussion and Analysis

- **The Community Service Information System**

During the year, the Community Service Information System progressed steadily, of which the "Government Community Data Service" project altogether finished 8.2 million sharing work of community basic data. The "Government Community Services" project provided 540,000 services, a 25% increase over the corresponding period of the previous year.

During the year, the Community Service Information System successfully completed the convenience works, such as the election of "Magic Community" for the municipal, "Care for Parents", "Harmonious Community" and "1000 Pharmacies", through various community services platform like community services hotlines and community services portal website.

- **Business Development**

During 2007, the Group not only strengthened and developed its foundation businesses, it also consolidated resources and attempted to explore new business, so as to lay a solid foundation for the future development of the Company in all aspects.

- *The Olympics Projects*

After making efforts in the past years, the Group became a multilingual service provide of the 2008 Beijing Olympic Games. It fully engaged in the operation and construction of "Olympics Multilingual Integrated Information Services Platform", which provided a favorable condition for the Company to gain access to the "sports competitions IT services fields".

During the year, the Group continued to win the tender for tender for the e-mail safety ancillary equipments for Beijing Olympic Organizing Committee, the anti-virus software project for the Beijing Olympic Organizing Committee and the Operation and Response Technology Security System MOC Project for Beijing Olympic Organizing Committee. In the meantime, the Group also obtained the Olympic projects for the PRC's Ministry of Science and Technology – the Research Subject of Information System Critical Technologies for the Paralympic Games.

Management Discussion and Analysis

➤ *Beijing-China*

“Beijing-China” is a portal website for the Beijing Municipal. During the year, the Group and the Beijing Municipal Government entered into an agreement, whereby the Group duly became the outsourcing supplier of the “Beijing-



China”. The “Beijing-China Operation Services Center” established by the Group fully embodied the main philosophies of developing the professional and industry of IT services, which symbolized the Group’s revolutionary breakthrough in the fields of information value-added services and high-end IT services.

➤ *Development in Other Regional Markets*

During the year, the Group consolidated internal resources, forcefully explored the business in the market of northeastern region, and established a subsidiary in Shenyang City of Liaoning Province, Liao Ning Province Capinfo Soft Co., Ltd (遼寧眾信同行軟件開發有限公司). The Group intended to explore the business in the market of northeastern region, by leveraging the excellent application software products and IT outsourcing services capacity of the subsidiary.

➤ *IT Services Business*

During the year, the IT services business made great strides as compared to the previous year. Its business volume increased 50% over the corresponding period of last year, and the direct customers achieved a six fold increase over last year. In addition to government convenience services and outsourcing services businesses including the “Beijing Municipal City Management Hotlines”, “Juvenile Interest Hotline”, “Services Hotline for Beijing District Heating Group” and “Services Hotline for Beijing Municipal Housing Loans and Guarantees Center”, the Group recorded steady growth in the outsourcing business of e-government affair call services. The great strides in IT services business provided the Group a strong support of overall stable development.

Management Discussion and Analysis

- **Investments**

In August 2007, the Group's controlling subsidiary, Liao Ning Province Capinfo Soft Co., Ltd (遼寧眾信同行軟件開發有限公司), was established with a registered capital of RMB5.00 million, which was mainly responsible for exploring the IT market business in the northeastern region.

In November 2007, the Group's controlling subsidiary, Beijing Capinfo Hangyuan Science & Technology (北京首信航源科技有限公司), was established with a registered capital of RMB1.00 million, which was mainly responsible for the development of a new generation marine GPS ancillary operation and monitoring system, and the development and sales business of products, such as various models of ship mobile terminals.

- **Future Prospects**

Under the premise of successfully securing of Olympic projects, the Group will constantly innovate the foundation businesses, steadily enhance earning pattern and operation mechanism, strengthen the effort in optimizing the associates, consolidate management, as well as, enhance the general management standard of the Group in 2008.

- **Employees**

As at the end of 2007, the Group had 837 employees (2006: 702). The payable staff cost was approximately RMB63.97 million (2006: RMB58.70 million).

Directors, Supervisors and Senior Management

Executive Directors

Dr. WANG Xu (汪旭博士), aged 39, a Group Executive Director since July 2001 and the Group Chief Executive of the Company. Dr. Wang received his doctorate degree at the Faculty of Technical Economics of Tsinghua University in the PRC in 1998. He joined the Group in the same year and is responsible for the administration and execution of the general business strategies of the Group.

Ms. ZHANG Yan (張延女士), aged 54, joined the Group in March 1998, a Group Executive Director and Chief Financial Officer appointed by the Board. Ms. Zhang received a bachelor's degree from the Faculty of Commerce and Economy of the People's University in the PRC in 1985. Ms. ZHANG 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. She has over 28 years of experience in finance and accounting in the PRC and Hong Kong.

Non-executive Directors

Mr. LI Minji (李民吉先生), aged 43, is currently deputy general manager of the State-owned Asset Management Corporation Limited ("BSAM") and the chairman of the Group. Mr. Li graduated from the Faculty of Finance and Administration of the People's University in the PRC in 1988 and received a master's degree in economics. He successively served as the deputy general manager of Wuhan International Trust and Investment Corporation Limited, deputy general manager of Capital Securities Co., Ltd., chief executive officer of Beijing Venture Capital Co., Ltd. and has over 20 years of experience in operation and management.

Mr. XING Dehai (邢德海先生), aged 67, is currently specially appointed director of BSAM. Mr. Xing graduated from the Party School of Beijing Commission in the PRC in 1986. He successively served as chairman of Beijing Longda Light Industry Holdings Company Limited, general manager of Beijing Second Light Industry Corporation and has over 40 years of experience in operation and management.

Mr. XU Zhe (徐哲先生), aged 38, is currently the manager of Assets Management Department of BSAM. He graduated from the Guanghua School of Management of the Peking University with a Master degree in Business Administration (MBA) in June 2005. Mr. Xu worked in Beijing International Trust and Investment Corporation Limited and has over 15 years of experience in operation and management.

Directors, Supervisors and Senior Management

Mr. BAI Liming (白利明先生), aged 35, is currently the vice Chief executive of Dynagreen Holding Group Co., Ltd (綠色動力控股集團有限公司). He graduated from the Faculty of Technical Economics and Management of Tsinghua University in the PRC in 2000 with a master's degree. He had worked for China Chemical Import and Export Company, Ping An Insurance Company Beijing Branch and Beijing State-Owned Assets Management Corporate Limited. He has over 8 years of experience in management.

Dr. WU Bo (吳波博士), aged 51, is currently the general manager of Beijing Credit Bureau Co., Ltd.. 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 engineering and 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, and his research subject was optic instruments and applied physics. He worked as a postdoctoral scholar in the Physics Postdoctoral Scholar Circulation Station of Tsinghua University from 1991 to 1993. Dr. Wu has served successively as head of international department of Jitong Communication Co. Ltd., sales manager of the CLI Company 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 Group.

Mr. QI Qigong (戚其功先生), aged 47, is currently the deputy general manager and chief accountant 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 deputy director general of the Beijing Telecom Bureau's Financial Department, as well as manager of finance department and deputy general manager of Beijing Telecom Company.

Mr. PAN Jiaren (潘家任先生), aged 68, is currently the director of Beijing Sino-Sky Radio TV & Communication Technology Co. Ltd.. 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 the Design Department 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.

Directors, Supervisors and Senior Management

Ms. Lu Xiaobing (盧小冰女士), aged 54, joined the Group in June 2007 and is one of the non-executive director, is currently the director of China Financial Computerization Corporation (中國金融電子化公司). Ms. Lu obtained a master degree in business management at Tianjin University (天津大學) in 1999. Ms. Lu had worked in the Chaoyang District of Beijing office of Industrial and Commercial Bank of China (工商銀行北京朝陽區辦事處), the technology department of the People's Bank of China (中國人民銀行科技司) responsible for the information application system of the bank, and the organization and management of the financial system of the State's Technology Organisation, including the state's "Eight-Five" financial computerization technology organization project, the state's "Fifteen" financial information technology project, and participated in the work of financial information development strategic research. She has more than 15 years of experience in financial information management.

Dr. XIA Peng (夏鵬博士), aged 43, is currently 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 the Faculty of Commerce of the People's University in the PRC in 2004. 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 and the head of the financial centre of the Beijing All Media and Culture Group. Dr. Xia has over ten years of management experience.

Mr. LIU Zhiyong (劉志勇先生), aged 43, 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 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.

Independent non-executive Directors

Mr. CHEN Jing (陳靜先生), aged 64, 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 part-time professor of South Western University of Finance and Economics, University of International Business and Economics and Xi'an Jiaotong University. Mr. Chen graduated from Tsinghua University 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.

Directors, Supervisors and Senior Management

Mr. YE Lu (葉路先生), aged 63, 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 Northern China Computer Technology Institute, a vice president of China Computer User Association and a vice president of China Information Association. Mr. Ye graduated from Tsinghua University, majoring in computer. He successively held positions in the national defence industry office of the Central Military Commission of China State Council, the State Commission of Defence Science and Industry and General Equipment Headquarters of the Chinese People's Liberation and served as the military attache (defence science and technology) of the Chinese Embassy in England. Mr. Ye participated in the preparation of the military computer hardware, software and networks scientific research planning. He also participated in the development and management of Yinhe supercomputer.

Mr. LIU Dongdong (劉東東先生), aged 34, is currently executive director of Beijing Jingdu Management Consultant Company Limited. Mr. Liu graduated from the North East University of Finance and Economics in 1997 and received a bachelor'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 10 years of experience in operation and management.

Qualified Accountant and Company Secretary

Mr. YU Decheng (于德誠先生), aged 39, serves as the Qualified Accountant and Company Secretary of the Company, graduated from University of Wollongong, Australia in 1993 and received a bachelor's degree in business. He is a member of CPA, Australia and Hong Kong Institute of Certified Public Accountants (AHKSA). Prior to joining the Group in March 2008, Mr. Yu successively served as the Chief Financial Officer of Beijing Teletron Telecom Engineering Co., Ltd., Zongtian Technology Co., Ltd., United States of America (美國縱天科技有限公司) and Teleweb Information Co.Ltd. and has over 10 years of management experience in financial management and auditing.

Directors, Supervisors and Senior Management

Supervisors

Ms. LIU Jian (劉健女士), aged 57, is currently a director and deputy general manager of BSAM. Ms. Liu graduated in 1993 from the Shanghai Finance University with a master's degree. Ms. Liu had served as deputy 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 33, is currently working for BSAM. Mr. Zhang graduated in June 2006 from the Faculty of Finance and Administration of the People's University in the PRC and received a master's degree in economics. Mr. Zhang had worked for the Beijing Municipal Finance Bureau's State-owned Asset Management Corporation and has nearly 10 years of management experience.

Mr. YAO Yuan (姚遠先生), aged 32, is currently Manager of the Legal Affairs Department of the Group. Mr. Yao graduated from the Law Department of Peking University 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, Tianke and Huatai Law Office.

Senior Management

Dr. GAO Jiaqing (高佳卿博士), aged 36, joined the Group in October 2003, is the secretary of the Board of Directors and Chief Officer of IT of the Group, and is responsible for the investment management business, Olympics multilingual services, electronic business and payment services, operation of Beijing-China, and the IT services of the Group. He is also the executive officer of the Contemporary Financiers (當代金融家) and vice president of Computer Business Association (電子商務協會). Dr. Gao graduated from the Faculty of Management of the Harbin Institute of Technology in the PRC and received a doctorate degree in investment management in 2001. Prior to joining the Group, Dr. Gao has served as the senior manager and chief executive of the securities investment department of ZhongGuanCun Technology Development Holding Company (中關村科技發展股份公司). Dr. Gao has over 10 years experience in management and operation in the aspects of China investment and financing market and internet and computer business.

Mr. ZHAO Yan (趙岩先生), aged 55, joined the Group in July 2001, is the group chief officer and is responsible for the businesses of computer community services, e-government services and application system development of the Group. Mr. Zhao graduated in 1998 from the Beijing Management Institute of Finance and Commerce in 1998 (北京財貿金融管理學院). Prior to joining the Group, Mr. Zhao had served as the chief officer of 5103 factory of Ministry of Weapon Industry, the director and general manager of Zhongfu Semi-conductors Industrial Co., Ltd. (中福半導體工業有限公司), the general manager and deputy party secretary of China Weapons Zhengzhou Yanxing Company (中國兵器鄭州燕興公司). He has nearly 30 years experience in corporate operation and management.

Directors, Supervisors and Senior Management

Ms. LI Wei (李薇女士), aged 49, joined the Group in July 2004, is the group chief officer for business development and managing director of Beijing Sports Technology Co., Ltd., and is responsible for the coordination, planning and management of the group's business development and service innovation business. Ms. Li graduated from Faculty of Resources, China University of Geosciences in 1987 and received a bachelor's degree in electronic technology (中國地質大學物探系電子技術專業). Prior to joining the Group, Ms. Li had served as lecturer in Computer Science at China University of Geosciences (中國地質大學計算機系教師), the chief representative of the Beijing Office of Taiwan Mei Ao Technology Co., Ltd. (臺灣美奧科技股份有限公司), the general sales manager of China holding corporate of Asia branch of Fourth-Shift Company of the United States (美國四班公司), the general manager of the Wuhan branch of the Greater China division of HP (中國惠普), and a professor of the School of Business of Wuhan University. She has nearly 20 years experience of corporate governance, sales and management.

Mr. YU Donghui (余東輝先生), aged 35, joined the Group in June 1999, is currently the group chief officer and is responsible for businesses of group network technology services, network operation, quality technology management and Capinfo Call Center. He has nearly 10 years experience of business technology management. Mr. Yu graduated in 1999 from the profession of materials processing project of Tsinghua University, and received a master's degree.

Mr. ZHENG Zhiguang (鄭志廣先生), aged 53, joined the Group in February 2000, is currently the group chief officer and is responsible for the management of the group's social security application and services, and was awarded the "International Senior Project Manager" recognized by the IPMP China Certification Management Board. Mr. Zheng graduated in 1982 from Beijing University of Aeronautics & Astronautics (北京航空學院) in 1982 and received a bachelor's degree. Prior to joining the Group, Mr. Zheng had served as the responsible person for the automatic software project of Shoudu Iron and steel Company (首都鋼鐵公司), the general manager of system integration department of Beijing Software Company (北京軟件公司), the assistant group chief executive of Beijing Kasi Technology Industrial Group (北京卡斯科技產業集團) and general manager of Beijing Kasi New Technology Co., Ltd. (北京卡斯特新技術有限公司). He has over 20 years experience of project management.

Mr. LIU Shu (劉舒先生), aged 36, joined the Group in May 2007, is currently the group chief financial planning officer and is responsible for the group's planning, project management and financial management. Mr. Liu graduated from the Central Institute of Finance and Banking in 1995, majoring in accounting, and received a bachelor's degree. Prior to joining the Group, Mr. Liu had served as the financial manager of the import and export corporate finance department of Beijing Chemical Industry Group (北京化工集團), and the financial controller of Pudu Investment Holdings Co., Ltd.. He has over 10 years experience of financial management.

Directors, Supervisors and Senior Management

Mr. Ai Jianjing (艾建京先生), aged 54, joined the Group in April 2001, is currently the group chief engineer and is responsible for the design, development, operation, maintenance and services of the information system of the group's social insurance. Mr. Ai graduated from Tsinghua University in 1978 and received a master's degree from the China Institute of Atomic Energy. Prior to joining the Group, Mr. Ai had served as the deputy general manager and engineer of Sitong E-Commerce Technology Co., Ltd. (四通電子商務技術有限公司), the chief engineer of the Chinese Medicine Website (中國中醫藥網), the deputy general manager and chief engineer of CAST Information System Technology Co., Ltd. (信息系統技術有限公司), and the deputy general manager and chief engineer of Interim Period - CAST Joint Future Information Engineering Co., Ltd. (中期—CAST聯合未來信息工程有限公司). He has more than 14 years experience of management.

Dr. CHEN Xinxiang (陳信祥博士), aged 65, joined the Group in January 1998 and was appointed as a group vice president, as well as, served as the group executive director and chairman subsequently. Dr. Chen resigned as the group executive director and chairman in July 2007, he is currently the group honour chairman. Dr. Chen graduated from the Department of Precision Instrument and Mechanical Manufacturing of Tsinghua University in the PRC in 1966. 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 as the chief engineer of the Beijing Economic Commission and as the chief representative of SAP China. He has over 30 years experience of management.

Mr. LU Shouqun (陸首群先生), aged 71, established the Group in January 1998. He was appointed as an executive director as well as the president of the Group in same year. In July 2001, he resigned from the position of executive director and president of the Group due to his senior age. He is currently the chief officer in charge of the Multimedia Research Laboratory, which was established with the assistance of the Group. Mr. Lu graduated from the Faculty of Electrical Engineering of Tsinghua University in the PRC in 1958. Prior to joining the Group, Mr. Lu was the Standing Deputy Director of the State Council Informatization Office, Chairman of the Board of Jitong Company, Manager of the Office for the Beijing Electronic Industry, Promotion Manager of the Office for the Electronic Industry of the Beijing Municipal Government and Chairman of the China Great Wall Computer Group. Mr. Lu has over 40 years of management experience.

Mr. ZHUANG Zixin (庄梓新先生), aged 72, joined the Company in February 1999 and is currently the vice president and researcher 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 director of the 634 Research Department of Aeronautics and Astronautics, the deputy chief executive of Shenzhen Catic Group (深圳中航企業集團), associate executive of the Shenzhen City Science Consultative Committee, chairman of the Shenzhen Computer Industry Chamber, the standing consultant and a member of the expert team of information steering committee of the State Council, an expert consultant of the Beijing Municipal Government and the vice deputy head of the Beijing Institute of Electronics, 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 2007.

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 5 board meetings during the year under review.

Details of the attendance of the Directors at the board meetings are as follows:

Directors	Attendance
<i>Executive Directors</i>	
Dr. Wang Xu (<i>Chief Executive</i>)	5/5
Ms. Zhang Yan	5/5
Dr. Chen Xinxiang (resigned on 23 July 2007)	2/2
<i>Non-executive Directors</i>	
Mr. Li Minji	3/5
Mr. Xing Dehai	5/5
Mr. Xu Zhe	3/5
Mr. Bai Liming	3/5
Dr. Wu Bo	5/5
Mr. Qi Qigong	2/5
Mr. Pan Jiaren	5/5
Dr. Xia Peng	1/5
Mr. Liu Zhiyong	1/5
Ms. Lu Xiaobing (appointed on 22 June 2007)	3/3
Ms. Tan Guoan (resigned on 22 June 2007)	0/2

Corporate Governance Report

Directors

Attendance

Independent Non-executive Directors

Mr. Chen Jing	5/5
Mr. Ye Lu	3/5
Mr. Liu Dongdong	4/5

The Board of Directors, which currently comprises fifteen 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. 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 Ms. Lu Xiaobing commenced on 22 June 2007, 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, Mr. Ye Lu, Mr. Liu Dongdong, Mr. Li Minji and Mr. Bai Liming. Mr. Li Minji and Mr. Bai Liming are the non-executive Directors of the Board 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 determine 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 discuss the remuneration packages of executive Directors and senior management of the Company. All members of the remuneration committee, namely Dr. Chen Xinxiang, Mr. Chen Jing, Mr. Ye Lu, Mr. Liu Dongdong and Mr. Bai Liming attended the said meeting which was held before the resignations of Dr. Chen Xinxiang.

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 resignation of Dr. Chen Xinxiang and the election of Mr. Li Minji as the chairman. Mr. Li Minji, Dr. Chen Xinxiang, Dr. Wang Xu, Ms. Zhang Yan, Mr. Xing Dehai, Mr. Xu Zhe, Mr. Bai Liming, Dr. Wu Bo, Mr. Pan Jiaren, Ms. Lu Xiaobing, Mr. Chen Jing and Mr. Ye Lu attended the said meeting.

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

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 RMB350,000 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 (<i>Chairman</i>)	4/4
Mr. Ye Lu	2/4
Mr. Liu Dongdong	4/4

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, requirements of the Stock Exchange and other statutory 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 34 of the annual report.

Internal Control

The Board of Directors has conducted a review on the effectiveness of the system of internal control of the Group regularly to ensure the relevant system is effective and adequate. The Board of Directors convened meeting regularly 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 2007.

Principal Activities

The Group is an information technologies and services supplier. It participated in the construction, operation and maintenance of large-scale information application projects in Beijing and other regions across the country, and has established a widespread and exclusive IT service network. The principal activities of the Company's subsidiaries are set out in note 30 to the financial statements.

Results

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 36 of the annual report.

The Board of Directors recommend the payment of a dividend for the year ended 31 December 2007.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

Property, Plant and Equipment

During the year, the Group incurred an aggregate of approximately RMB97,718,000 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 13 to the financial statements.

Directors and Supervisors and Service Contracts

The directors and supervisors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Dr. Wang Xu (*Chief Executive*)

Ms. Zhang Yan

Dr. Chen Xinxiang (resigned on 23 July 2007)

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
Dr. Xia Peng
Mr. Liu Zhiyong
Ms. Lu Xiaobing (appointed on 22 June 2007)
Ms. Tan Guoan (resigned on 22 June 2007)

Independent non-executive directors:

Mr. Chen Jing
Mr. Ye Lu
Mr. Liu Dongdong

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

Supervisors:

Ms. Liu Jian
Mr. Zhang Zhenlong
Mr. Yao Yuan

All executive Directors have entered into service contracts with the Company on 6 December 2001 for a term of three years. Executive Director Dr. Chen Xin Xiang resigned on 7 July 2007 and the terms of the other two Executive Directors are subject to renewal by agreement for one or more consecutive terms of three years.

In accordance with the provisions of the Company's Articles of Association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-appointment or re-election. In accordance with the provisions of the Companies Law in the People's Republic of China (the "PRC"), the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, all the directors' and supervisors' terms of office has

Directors' Report

not expired. Save as the resignation of Dr. Chen Xinxiang on 23 July 2007, other directors and supervisors remain as directors and supervisors.

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 Executives of the Company*

Save as disclosed below, as ended 31 December 2007, none of the Directors and chief executives 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 securities transactions by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

Name	Number of H Shares subject to options outstanding ended 31 December 2007			Percentage to the issued H share capital
	Granted under the Pre-IPO Share Option Plan	Granted under the Share Option Scheme	Total	
<i>Directors</i>				
Dr. 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%
	6,356,550	7,330,000	13,686,550	1.77%

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

Directors' Report

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

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

Directors' Report

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

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of the Company of any person (other than a Director or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as ended 31 December 2007:

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

So far as is known to any Director or chief executive of the Company, the following companies/persons were interested in 10% or more of the equity interests of any other members of the Group as ended 31 December 2007:

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 (北京宏信軟件有限責任公司)	Beneficial owner	40%
China Association of Mayors	Beijing City Technology Development Co., Ltd	Beneficial owner	15%

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

SHARE OPTIONS

(a) Pre-IPO share option plan

Pursuant to a pre-IPO share option plan, the pre-IPO share options had been granted in previous years with an exercise price of HK\$0.48 per H Share (the placing price of the H Shares of the Company upon listing) and can be exercised within a period of ten years from the date of grant, provided that the limitation imposed by relevant PRC laws and regulations should be complied. These share options are aimed to recognize the grantees' contributions to the Group in the past and at present. The summary of the granted Pre-IPO share options is as follows:

	At 1 January 2007	Lapsed or transferred to other classes during the period	At 31 December 2007
Directors of the Company	10,149,400	(3,792,850)	6,356,550
Supervisors of the Company	2,509,450	–	2,509,450
Senior management of the Company	4,836,620	–	4,836,620
Senior consultant of the Company	2,619,500	*1,309,750	3,929,250
Consultant of the Company	2,808,910	–	2,808,910
Other employees of the Company and its subsidiaries	19,481,795	(1,918,125)	17,563,670
	<u>42,405,675</u>	<u>4,401,225</u>	<u>38,004,450</u>

Notes: Dr. Chen Xinxiang resigned as the executive director and chairman of the Company on 23 July 2007, he is currently the honour chairman of the Company. All of the share options of the Company held by Dr. Chen Xinxiang were transferred from the class of original director to the class of senior consultant.

Directors' Report

During the period, the summary of the share options granted under the share option scheme of the Company is as follows:

	At 1 January 2007	Lapsed or transferred to other classes during the period	At 31 December 2007
Directors of the Company	12,962,000	(5,632,000)	7,330,000
Supervisors of the Company	2,932,000	–	2,932,000
Senior management of the Company	9,166,000	(1,466,000)	7,700,000
Senior consultant of the Company	11,264,000	*2,700,000	13,964,000
Consultant of the Company	2,384,000	–	2,384,000
Other employees of the Company and its subsidiaries	20,125,000	(1,812,000)	18,313,000
	<u>58,833,000</u>	<u>6,210,000</u>	<u>52,623,000</u>

Notes: Dr. Chen Xinxiang resigned as the executive director and chairman of the Company on 23 July 2007, he is currently the honour chairman of the Company. All of the share options of the Company held by Dr. Chen Xinxiang were transferred from the class of original director to the class of senior consultant.

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.

Directors' Report

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 twelve months ended 31 December 2007.

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 2007 have been reviewed by the audit committee, which was of the view that the preparation of the financial statements was in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements.

Directors' Report

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the 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 29(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 29(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.

The auditors of the Company have also confirmed that the continuing connected transactions set out in note 29(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' Report

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 37% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 28% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 15% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 3.6% of the Group's total purchases.

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

Auditors

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

On behalf of the Board

Li Minji

Chairman

Beijing, the PRC,
25 March 2008

Supervisors' Report

To all shareholders,

In 2007, in accordance with the Company Law of the People's Republic of China and the Articles of Association of Capinfo Company Limited and other laws and regulations, the Supervisory Committee of the Company (the "Supervisory Committee") properly performed its duties, closely supervised over the Company's financial and operation status, in an effort to protect shareholders' interests.

During the year, the Supervisory Committee held four meetings, seriously reviewed the Company's financial statements and reports, and vigorously interacted with the management of the Company on relevant issues.

During the year, in accordance with relevant laws, regulations and the Articles of Association, the Supervisory Committee effectively monitored the procedures of convening shareholders' meeting and Board meetings, resolutions passed at the meetings and their 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, the Directors and other senior management have strictly complied with the relevant requirements of 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 seriously analyzed the Company's financial statements for 2007. The Supervisory Committee is of the view that, "during the reporting period, 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. The 2007 financial report has, in all major aspects, fairly reflected the Company's financial status and operating results." The Supervisory Committee looks forward, in 2008, to exploration of business and enhancement of profitability under the leadership of the new management, so as to strengthen the solid foundation for the Company.

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,

25 March 2008

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 36 to 93, which comprise the consolidated balance sheet as at 31st December, 2007, 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.

Independent Auditor's Report

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 2007 and of its 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, 20th March, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	5	288,254	223,171
Cost of sales		(195,439)	(168,207)
Gross profit		92,815	54,964
Gain on disposal of a business	6	–	18,278
Gain on disposal of a jointly controlled entity		–	1,849
Other income		18,331	14,613
Fair value gain on investments held for trading		31,094	5,353
Research and development costs		(22,004)	(26,590)
Marketing and promotional expenses		(8,657)	(8,815)
Administrative expenses		(57,336)	(40,074)
Interest on other loan wholly repayable within five years		(213)	(251)
Share of losses of associates		(3,200)	(7,810)
Profit before tax	7	50,830	11,517
Income tax expense	10	(5,496)	(2,017)
Profit for the year		45,334	9,500
Attributable to:			
Equity holders of the Company		47,107	11,577
Minority interests		(1,773)	(2,077)
		45,334	9,500
Earnings per share - Basic	12	1.63 cents	0.40 cents

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	227,158	197,497
Interests in associates	14	29,748	23,828
Available-for-sale investments	15	1,350	1,350
Deposits paid on acquisition of property, plant and equipment		2,363	31,527
		260,619	254,202
Current assets			
Inventories	16	1,127	2,703
Amounts due from customers for contract works	17	30,268	24,972
Trade and other receivables	18	38,171	41,706
Amounts due from associates		316	90
Pledged bank deposits	18	10,800	24,567
Bank balances and cash	18	445,677	341,485
		526,359	435,523
Current liabilities			
Trade and other payables	19	103,496	68,862
Amounts due to associates		643	–
Customer deposits for contract works		51,691	45,301
Income tax payable		7,794	2,903
Other loan	20	9,090	10,000
		172,714	127,066
Net current assets		353,645	308,457
		614,264	562,659

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	21	289,809	289,809
Reserves		322,172	269,849
Equity attributable to equity holders of the Company		611,981	559,658
Minority interests		2,283	3,001
Total equity		614,264	562,659

The consolidated financial statements on pages 36 to 93 were approved and authorised for issue by the board of directors on 20th March, 2008 and are signed on its behalf by:

Mr. Li Minji
CHAIRMAN

Dr. Wang Xu
CHIEF EXECUTIVE OFFICER

Consolidated Statement Of Changes In Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	Statutory	Statutory	Accumulated profits	Total	Minority interests	Total
				surplus reserve	welfare fund				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2006	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 (Note)	-	-	-	812	(812)	-	-	-	-
Profit appropriations	-	-	-	481	-	(481)	-	-	-
At 31st December, 2006	289,809	254,079	-	2,918	-	12,852	559,658	3,001	562,659
Profit for the year (total recognised income for the year)	-	-	-	-	-	47,107	47,107	(1,773)	45,334
Capital contribution from minority owner of a subsidiary	-	-	5,216	-	-	-	5,216	1,055	6,271
Profit appropriations	-	-	-	6,614	-	(6,614)	-	-	-
At 31st December, 2007	289,809	254,079	5,216	9,532	-	53,345	611,981	2,283	614,264

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 since 2006. The remaining balance of statutory public welfare fund is transferred to statutory surplus reserve.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007	2006
	RMB'000	RMB'000
Operating activities		
Profit before tax	50,830	11,517
Adjustments for:		
Interest income	(2,906)	(2,727)
Interest expenses	213	251
Share of losses of associates	3,200	7,810
Depreciation	67,671	29,261
Loss on disposal of property, plant and equipment	171	85
Write down of inventories	1,088	10,180
Allowance for doubtful debts	3,639	1,596
Gain on disposal of assets	(3,445)	–
Gain on disposal of a jointly controlled entity	–	(1,849)
Gain on disposal of a business	–	(18,278)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	120,461	32,493
Decrease in inventories	488	4,122
(Increase) decrease in amounts due from customers		
for contract work	(5,296)	21,753
Increase in trade and other receivables	(1,104)	(2,203)
Increase (decrease) in trade and other payables	34,681	(34,412)
Increase in customer deposits for contract work	6,390	32,054
	<hr/>	<hr/>
Cash generated from operations	155,620	59,160
PRC income tax paid	(605)	(3,711)
	<hr/>	<hr/>
Net cash from operating activities	155,015	55,449
	<hr/>	<hr/>

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007	2006
	RMB'000	RMB'000
Investing activities		
Interest received	2,906	2,727
Dividend received from an associate	2,121	1,294
Purchase of property, plant and equipment	(68,554)	(88,603)
Deposits paid on acquisition of property, plant and equipment	(47)	(31,527)
Proceeds from disposal of property, plant and equipment	215	185
Proceeds from disposal of available-for-sale investments	–	8,614
Proceeds from disposal of a business	–	20,110
Investments in associates	(1,000)	–
(Increase) decrease in amounts due from associates	(226)	1,092
Increase in amounts due to associates	643	–
Decrease in pledged bank deposits	13,767	38,988
	<hr/>	<hr/>
Net cash used in investing activities	(50,175)	(47,120)
	<hr/>	<hr/>
Financing activities		
Interest paid	(213)	(251)
Repayments of borrowings	(910)	–
Capital contributions from minority owner of a subsidiary	475	400
	<hr/>	<hr/>
Net cash (used in) from financing activities	(648)	149
	<hr/>	<hr/>
Net increase in cash and cash equivalents	104,192	8,478
Cash and cash equivalents at 1st January	341,485	333,007
	<hr/>	<hr/>
Cash and cash equivalents at 31st December, represented by bank balances and cash	445,677	341,485
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December 2007

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, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and 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 2007

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) - Int 12	Service Concession Arrangements ³
HK(IFRIC) - Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are stated at fair values, 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 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

The acquisition of business 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.

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 business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet as an intangible asset.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill arising from an acquisition business 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.

On subsequent disposal of the relevant cash-generating unit, 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, 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.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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.

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

Joint ventures

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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 excluding financial assets held for trading 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.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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".

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than freehold land over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

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 an expense 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.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

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.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL includes financial assets held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loan 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 dates subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from customers for contract works, amount due from associates, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

The Group's 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 (see accounting policy on impairment loss on financial assets below).

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

Notes to the Financial Statements

For the year ended 31st December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities of the Group including trade and other payables, amount due to associates and other loan, are subsequently measured at amortised cost, using the effective interest 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 receivable 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 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Share options granted and vested prior to 1st 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 tangible to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Notes to the Financial Statements

For the year ended 31st December 2007

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.

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.

Notes to the Financial Statements

For the year ended 31st December 2007

5. 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 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments for the year are as follows:

	2007		2006	
	Turnover RMB'000	Results RMB'000	Turnover RMB'000	Results RMB'000
e-Government technology services	275,553	55,442	201,691	43,810
e-Commerce technology services	12,701	(12,817)	21,480	(24,346)
	288,254	42,625	223,171	19,464
Gain on disposal of a business engaged in e-commerce technology service		–		18,278
Gain on disposal of a jointly controlled entity engaged in other business		–		1,849
Other income		49,425		19,966
Unallocated administrative expenses		(37,807)		(39,979)
Interest on other loan wholly repayable within five years		(213)		(251)
Share of losses of associates engaged in other businesses		(3,200)		(7,810)
Profit before tax		50,830		11,517
Income tax expense		(5,496)		(2,017)
Profit for the year		45,334		9,500

As the assets of the Group are substantially used on a common basis by the segments of the Group, it is impracticable to analyse the assets and liabilities of the Group by business segments.

Geographical segments

The Group's operations are situated in Mainland China in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments were presented.

Notes to the Financial Statements

For the year ended 31st December 2007

6. 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 year ended 31st December, 2006.

7. PROFIT BEFORE TAX

	2007	2006
	RMB'000	RMB'000
Profit before tax has been arrived at after charging:		
Directors' and supervisors' remuneration (Note 8)	2,029	2,007
Other staff costs	57,855	52,930
Other staff's retirement benefit scheme contributions	4,087	3,752
	63,971	58,689
Less: Staff costs included in research and development costs	(7,513)	(15,192)
Staff costs included in contract works	(24,826)	(18,050)
	31,632	25,447
Depreciation	67,671	48,407
Less: Depreciation included in research and development costs	(1,381)	(2,128)
Depreciation capitalised in contract works	(61,929)	(19,146)
	4,361	27,133

Notes to the Financial Statements

For the year ended 31st December 2007

7. PROFIT BEFORE TAX (continued)

	2007	2006
	RMB'000	RMB'000
Operating lease rentals in respect of		
- cable network	8,303	11,695
- land and buildings	9,793	10,892
	18,096	22,587
Less: Operating lease rentals included in research and development costs	(1,094)	(675)
Operating lease rentals capitalised in contract works	(9,079)	(9,364)
	7,923	12,548
Allowance for doubtful debts	3,639	1,596
Auditors' remuneration	1,607	1,302
Cost of inventories recognised as expenses	23,923	40,768
Impairment of goodwill of an associate (included in share of losses of associates)	867	1,059
Loss on disposal of property, plant and equipment	171	85
Share of tax of an associate (included in share of losses of associates)	367	193
Write down of inventories	1,088	10,180
and after crediting:		
Government grants	11,535	9,593
Interest income from bank deposits	2,906	2,727

Notes to the Financial Statements

For the year ended 31st December 2007

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2007	2006
	RMB'000	RMB'000
Fees		
– independent non-executive directors	133	232
– executive directors, other non-executive directors and supervisors	–	–
Other emoluments for non-executive directors	–	–
	133	232
Other emoluments for executive directors		
– basic salaries and allowances	1,684	1,687
– retirement benefit scheme contributions	33	32
	1,717	1,719
Other emoluments for supervisors		
– basic salaries and allowances	173	55
– retirement benefit scheme contributions	6	1
	179	56
	2,029	2,007

Notes to the Financial Statements

For the year ended 31st December 2007

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The emoluments paid or payable to each of the 19 (2006: 23) directors and supervisors were as follows:

	Fees RMB'000	Other emoluments		Total RMB'000
		Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	
Directors				
Dr. Chen Xinxiang (resigned on 23rd July, 2007)	–	440	8	448
Dr. Wang Xu	–	522	9	561
Ms. Zhang Yan	–	346	8	354
Mr. Li Minji	–	–	–	–
Mr. Xing Dehai	–	–	–	–
Mr. Xu Zhe	–	–	–	–
Mr. Bai Liming	–	–	–	–
Dr. Wu Bo	–	346	8	354
Mr. Xia Peng	–	–	–	–
Mr. Pan Jiaren	–	–	–	–
Mr. Qi Qigong	–	–	–	–
Mr. Liu Zhi Yong	–	–	–	–
Ms. Tan Guoan (resigned on 22nd June, 2007)	–	–	–	–
Ms. Lu Xiaobing (appointed on 22nd June, 2007)	–	–	–	–
Ms. Chen Jing	46	–	–	46
Mr. Ye Lu	46	–	–	46
Mr. Liu Dongdong	41	–	–	41
Supervisors				
Ms. Liu Jian	–	–	–	–
Mr. Zhang Zhenlong	–	–	–	–
Mr. Yao Yuan	–	173	6	179
	133	1,857	39	2,029

Notes to the Financial Statements

For the year ended 31st December 2007

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

2006	Fees RMB'000	Other emoluments		Total RMB'000
		Basic salaries and allowances RMB'000	Retirement benefit scheme contributions 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 Zhi Yong (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 (resigned on 13th October, 2006)	–	–	–	–
	232	1,742	33	2,007

Notes to the Financial Statements

For the year ended 31st December 2007

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included four (2006: four) executive directors of the Company, whose emoluments are included in Note 8 above. The emolument of the remaining one (2006: one) highest paid individual as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries and allowances	451	314
Retirement benefit scheme contributions	8	7
	459	321

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

The Company is recognised as a new-technology enterprise according to PRC tax regulations and subject to PRC income tax at 15% (2006: 15%) of the estimated assessable profit for the year.

The Company's subsidiaries, Capinfo Technology Development Co., Ltd. and Beijing Sports Technology Co., Ltd. were High-Technology Enterprise which approved by The Committee of Beijing Science and Technology. Pursuant to the relevant laws and regulations in the PRC, these companies is entitled to exemption from income tax for three years commencing from the company has been established and thereafter and entitled to a 50% relief from income tax for the next three years.

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 RMB705,000 for the year ended 31st December, 2006 is recognised in the current year and a tax credit of approximately RMB1,558,000 for the year ended 31st December, 2005 is recognised in last year.

Notes to the Financial Statements

For the year ended 31st December 2007

10. INCOME TAX EXPENSE (continued)

	2007	2006
	RMB'000	RMB'000
The charge (credit) comprises:		
PRC income tax		
Current year	6,201	3,575
Tax credit for previous year	(705)	(1,558)
	5,496	2,017

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

	2007	2006
	RMB'000	RMB'000
Profit before tax	50,830	11,517
Tax at domestic income tax rate of 15% (2006: 15%)	7,625	1,728
Tax effect of expenses that are not deductible in determining taxable profit	915	2,266
Tax effect of tax exemption granted to subsidiaries	(3,889)	(2,688)
Tax effect of tax losses of subsidiaries not recognised	1,070	1,098
Tax effect of share of profit of an associate	(367)	(193)
Tax effect of tax losses of associates not recognised	847	1,364
Tax credit for previous year	(705)	(1,558)
Tax expense for the year	5,496	2,017

At the balance sheet date, the subsidiaries have unused tax losses of approximately RMB25,000,000 (2006: RMB23,000,000) 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 2012.

Notes to the Financial Statements

For the year ended 31st December 2007

10. INCOME TAX EXPENSE (continued)

On 16th March, 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the People's Republic of China. On the December 2007, the State Council issued implementation Regulations of the New Law. The New Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprises from 1st January, 2008. In the opinion of the directors, however, the Company will apply for the "New and High-Tech Enterprise" status that will allow it to continue to entitle the tax rate of 15% under the New Law.

11. DIVIDEND

Subsequent to the balance sheet date, the dividend of RMB1.40 cents (2006: Nil) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming general meeting.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of RMB47,107,000 (2006: RMB11,577,000) and 2,898,086,091 (2006:2,898,086,091) shares in issue during the year.

No diluted earnings per share has been presented in 2007 and 2006 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 2007

13. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB'000	Leasehold improvements RMB'000	Network equipment RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress (Note) RMB'000	Total RMB'000
Cost							
At 1st January 2006	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
Additions	35,118	290	13,455	2,300	-	46,555	97,718
Transfers	-	-	43,479	-	-	(43,479)	-
Disposals	(4,503)	-	(646)	(506)	(274)	-	(5,929)
At 31st December 2007	127,364	20,330	424,035	7,679	420	73,089	652,917
Depreciation							
At 1st January 2006	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
Provided for the year	31,719	1,547	33,107	1,215	83	-	67,671
Eliminated on disposals	(4,278)	-	(568)	(437)	(260)	-	(5,543)
At 31st December 2007	116,458	12,414	293,017	3,729	141	-	425,759
Net book values							
At 31st December 2007	10,906	7,916	131,018	3,950	279	73,089	227,158
At 31st December 2006	7,732	9,173	107,269	2,934	376	70,013	197,497

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 2007

13. 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 $\frac{1}{3}$ %
Network equipment	20% or over the remaining period of the relevant contract work
Office equipment, furniture and fixtures	20%
Motor vehicles	20%
Leasehold improvements	Over the period of the respective leases

14. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Cost of unlisted investment in associates	49,638	41,955
Less: unrealised profit eliminated	(2,238)	–
	47,400	41,955
Share of other reserve (Note)	5,796	–
Share of post-acquisition loss	(23,448)	(18,127)
	29,748	23,828

Note: In November 2007, the Group established Hanyu in Chongqing province, with another investor, Chongqing Min-Max Technology Limited ("Min-Max"). The registered capital of Hanyu was RMB8,433,700, of which 68% to be contributed by the Group and 32% to be contributed by Min-Max. At the time of establishment, Min-Max injected cash of RMB550,000 and the Group injected intangible assets whose assessed value is RMB5,684,000 in the capital of Hanyu. The unpaid portion of the registered capital will be paid within two years from the business license date according to Hanyu's Memorandum and Articles of Association.

In December 2007, Afareast International Limited ("Afareast"), a new investor of Hanyu, injected USD2,800,000 (equivalent to RMB20,720,000) in the equity of Hanyu, comprising registered capital of RMB6,000,000 and capital surplus of RMB14,720,000. The registered capital of Hanyu was then increased to RMB14,433,700. The attributable equity interests in the registered capital of Hanyu held by the Group, Min-Max and Afareast changed to 39.38%, 19.05% and 41.57% respectively. Share of other reserve included in the interest in associates represents the capital surplus of Hanyu shared by the Group.

Notes to the Financial Statements

For the year ended 31st December 2007

14. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates, which are private limited companies established and operating in the PRC, at the balance sheet date are as follows:

Name of associate	Proportion of registered capital held by the Group		Principal activities
	2007	2006	
北京數字證書認證中心有限公司 (Beijing Certificate of Authority Center Company Limited) (Note)	47.71%	47.71%	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%	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%	40%	Provision of information application services and related businesses
北京市社區服務有限公司 (Beijing Community Service Company Limited)	25%	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)	23%	23%	Manufacture and sale of smart IC cards and provision of related system integration services
北京首信創安數碼科技有限公司 (Chuangan Digital Technology Co., Ltd.)	20%	N/A	Provision of security information application services and related businesses
重慶宏信瀚宇網路技術有限公司 (Chongqing Hongxin Hanyu Internet Company Limited, ("Hanyu"))	39.38%	N/A	Network game software development and related businesses

Note: These entities are subsidiaries of BSAM.

Notes to the Financial Statements

For the year ended 31st December 2007

14. INTERESTS IN ASSOCIATES (continued)

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

	2007	2006
	RMB'000	RMB'000
Cost		
At 1st January	1,059	1,059
Arising on acquisition	867	–
	<hr/>	<hr/>
At 31st December	1,926	1,059
	<hr/>	<hr/>
Impairment		
At 1st January	1,059	–
Impairment loss identified during the year	867	1,059
	<hr/>	<hr/>
At 31st December	1,926	1,059
	<hr/>	<hr/>
Carrying values	–	–
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December 2007

14. INTERESTS IN ASSOCIATES (continued)

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

	2007	2006
	RMB'000	RMB'000
Total assets	144,594	109,328
Total liabilities	(66,592)	(55,153)
Net assets	78,002	54,175
Group's share of net assets of associates	26,303	23,828
Turnover	62,310	52,553
Loss for the year	(4,808)	(30,215)
Group's share of losses of associates for the year	(2,333)	(6,751)
Impairment of goodwill of an associate	(867)	(1,059)
Share of losses of associates as shown in the consolidated income statement	(3,200)	(7,810)

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:

	2007	2006
	RMB'000	RMB'000
Unrecognised share of profit (loss) of an associate for the year	6	(932)
Accumulated unrecognised share of loss of an associate	(926)	(932)

Notes to the Financial Statements

For the year ended 31st December 2007

15. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	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.

Details of the investments at the balance sheet date are as follows:

Name of investee	Place of incorporation/ establishment	Proportion of nominal value of registered/share capital held by the Group		Principal activities
		2007	2006	
東莞市開普互聯信息有限公司 (UCAP Technologies Ltd.)	PRC	5%	5%	Development of computer software, computer system integration and technical consultancy
Astoria Innovations Ltd.	British Virgin Islands	5%	5%	Provision of labour force digitalisation market service and related businesses

16. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	725	2,018
Merchandise	402	685
	1,127	2,703

Notes to the Financial Statements

For the year ended 31st December 2007

17. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2007	2006
	RMB'000	RMB'000
Contract costs incurred to date	195,701	211,806
Recognised profits less recognised losses	82,667	48,608
	278,368	260,414
Less: Progress billings	(248,100)	(235,442)
	30,268	24,972

18. OTHER FINANCIAL ASSETS

(i) Trade and other receivables

	2007	2006
	RMB'000	RMB'000
Trade receivables		
– a fellow subsidiary	5,061	1,760
– other state-controlled entities and the PRC government	17,052	15,582
– others	16,168	12,787
Sub-total	38,281	30,129
Less: Allowance for doubtful debts	(15,833)	(11,350)
	22,448	18,779
Other receivables, deposits and prepayments	15,723	22,927
	38,171	41,706

Notes to the Financial Statements

For the year ended 31st December 2007

18. OTHER FINANCIAL ASSETS (continued)

(i) Trade and other receivables (continued)

The Group allows an average credit period of 180 days to its trade customers. The following is an aged analysis of trade receivables net of allowance at the balance sheet date:

Age	2007 RMB'000	2006 RMB'000
0 to 60 days	11,315	11,589
61 to 90 days	1,872	251
91 to 180 days	8,932	494
Over 180 days	329	6,445
	22,448	18,779

Movement in the allowance for the doubtful debts

	2007 RMB'000	2006 RMB'000
Balance at the beginning of the year	11,350	10,732
Impairment losses recognised on receivables	4,483	618
	15,833	11,350

The overdue balances were approximately RMB329,000 as at 31st December, 2007 (2006: RMB6,445,000) for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Notes to the Financial Statements

For the year ended 31st December 2007

18. OTHER FINANCIAL ASSETS (continued)

(ii) Pledged bank deposits

Pledged bank deposits carry fixed interest rates which range from 3.33% to 3.78% per annum with maturity periods within three to six months.

(iii) Bank balances and cash

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

19. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	RMB'000
Trade payables		
– a fellow subsidiary	20	–
– others	16,619	5,679
	16,639	5,679
Government grants not recognised as income	19,032	26,188
Other payables and accrued expenses	67,092	27,736
Customer deposits	733	9,259
	103,496	68,862

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

Age	2007	2006
	RMB'000	RMB'000
0 to 60 days	13,277	1,976
61 to 90 days	369	213
91 to 180 days	92	57
Over 180 days	2,901	3,433
	16,639	5,679

Notes to the Financial Statements

For the year ended 31st December 2007

20. OTHER LOAN

	2007	2006
	RMB'000	RMB'000
Carrying amount repayable:		
Within one year and shown under		
current liabilities	9,090	10,000

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% (2006: 2.55%) per annum for the year ended 31st December, 2007.

21. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid
	Domestic shares	H shares	
Balance of share capital of RMB0.10 each at 1st January, 2006, 31st December, 2006 and 31st December, 2007	2,123,588,091	774,498,000	289,809

Notes to the Financial Statements

For the year ended 31st December 2007

22. 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 1.1.2006	Lapsed during the year	Outstanding at 31.12.2006	Reclassified during the year (Note)	Lapsed during the year	Outstanding at 31.12.2007
Directors	10,149,400	–	10,149,400	(1,309,750)	(2,483,100)	6,356,550
Supervisors	3,795,950	(1,286,500)	2,509,450	–	–	2,509,450
Senior management	4,836,620	–	4,836,620	–	–	4,836,620
Senior advisors	2,619,500	–	2,619,500	1,309,750	–	3,929,250
Advisors	4,309,930	(1,501,020)	2,808,910	–	–	2,808,910
Other employees	19,979,655	(497,860)	19,481,795	–	(1,918,125)	17,563,670
	45,691,055	(3,285,380)	42,405,675	–	(4,401,225)	38,004,450

Note: Mr. Chen Xinxiang resigned as the board chairman and director on 23rd July, 2007, and acts as the honorary chairman of the Company. The share options which he holds were reclassified from the category of directors to senior advisors.

The options outstanding at the end of the year have a remaining contractual life of 4 years (2006: 5 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 2007

22. 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 2007

22. 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 1.1.2006	Lapsed during the year	Outstanding at 31.12.2006	Reclassified during the year (Note)	Lapsed during the year	Outstanding at 31.12.2007
Directors	12,962,000	–	12,962,000	(2,700,000)	(2,932,000)	7,330,000
Supervisors	4,398,000	(1,466,000)	2,932,000	–	–	2,932,000
Senior management	9,166,000	–	9,166,000	–	(1,466,000)	7,700,000
Senior advisors	11,264,000	–	11,264,000	2,700,000	–	13,964,000
Advisors	3,302,000	(918,000)	2,384,000	–	–	2,384,000
Other employees	20,729,000	(604,000)	20,125,000	–	(1,812,000)	18,313,000
	61,821,000	(2,988,000)	58,833,000	–	(6,210,000)	52,623,000

Note: Mr. Chen Xinxiang resigned as the board chairman and director on 23rd July, 2007, and acts as the honorary chairman of the Company. The share options which he holds were reclassified from the category of directors to senior advisors.

The options outstanding at the end of the year have a remaining contractual life of 7 years (2006: 8 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.

Notes to the Financial Statements

For the year ended 31st December 2007

23. 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.

24. MAJOR NON-CASH TRANSACTIONS

During 2006, the Group disposed of its interest in a jointly 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., a subsidiary of Beijing Zhongjiaxun Communication Equipment Co., Ltd.

Notes to the Financial Statements

For the year ended 31st December 2007

25. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loan and receivables:		
Amounts due from customers for contract works	30,268	24,972
Trade receivables	22,448	18,779
Other receivables	7,065	13,788
Amounts due from associates	316	90
Pledged bank deposits	10,800	24,567
Bank balances and cash	445,677	341,485
	516,574	423,681
Available-for-sale financial assets	1,350	1,350
Financial liabilities		
Amortised cost:		
Trade and other payables	103,496	68,862
Amounts due to associates	643	–
Other loan	9,090	10,000
	113,229	78,862

Notes to the Financial Statements

For the year ended 31st December 2007

25. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies

The Group's major financial instruments include bank balance and cash, trade and other receivables, amounts due from associates, amount due from customers for contract work, trade payables, customer deposits for contract works and other loan. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed rate other borrowings subject to negotiation on annual basis (see Note 20). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk and the management will consider hedging interest rate exposure should the need arise.

Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to variables interest rates for the Group's bank balance at the balance sheet date, the analysis is prepared assuming the amount of asset outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the balance sheet date, if interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's profit would increased/decreased by approximately RMB4,565,000 for the year ended 31 December 2007 (2006: RMB3,621,000).

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The Group has disposed of those held for trading investments before year end.

Notes to the Financial Statements

For the year ended 31st December 2007

25. FINANCIAL INSTRUMENTS (continued)

Other price risk (continued)

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, amounts due from customers for contract works, bank balances and deposits. At the balance sheet date, 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 is arising from the carrying amount of the respective recognised financial assets 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 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 large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

Liquidity risk

The Group has no significant concentration of liquidity risk, with enough bank balances at the balance sheet date.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings from time to time.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Notes to the Financial Statements

For the year ended 31st December 2007

25. FINANCIAL INSTRUMENTS (continued)

Other price risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2007 RMB'000
At 31.12.2007						
Trade and other payables	-	56,517	7,490	39,489	103,496	103,496
Amounts due to associates	-	643	-	-	643	643
Other loans	2.55	19	39	9,264	9,322	9,090
		57,179	7,529	48,753	113,461	113,229

	Weighted average effective interest rate %	Less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2006 RMB'000
At 31.12.2006						
Trade and other payables	-	19,378	1,153	48,331	68,862	68,862
Other loans	2.55	21	43	10,191	10,255	10,000
		19,399	1,196	58,522	79,117	78,862

Notes to the Financial Statements

For the year ended 31st December 2007

25. FINANCIAL INSTRUMENTS (continued)

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

26. 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:

	2007	2006
	RMB'000	RMB'000
Land and buildings		
Within one year	7,241	9,620
In the second to fifth year inclusive	6,789	4,275
	14,030	13,895

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 2007

27. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	2,875	16,111
– formation of a new joint venture (Note)	–	30,000
	2,875	46,111

Note: The contract was cancelled during 2007.

28. 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.

29. RELATED PARTY DISCLOSURES

(i) Transactions with holding company and fellow subsidiaries

Related party	Nature of transactions	Notes	2007 RMB'000	2006 RMB'000
<u>Holding company</u>				
CNC Beijing Communication Corporation (“CNC Beijing”)	Dedicated circuit leasing services paid	(a)	6,739	7,133
	Telephone related services paid	(b)	879	1,281
<u>Fellow subsidiaries</u>				
Capnet Company Limited (“Capnet”)	Comprehensive services income received	(c)	7,026	7,100
Beijing IC Design Park Co., Ltd. (“BIDP”)	Rental paid for office premises	(d)	4,962	5,702

Notes to the Financial Statements

For the year ended 31st December 2007

29. RELATED PARTY DISCLOSURES (continued)

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

Notes:

(a) In April 2001, the Group entered into an agreement with 北京市电信公司營業局 (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 is amounted to be RMB670,000 per month and approximately RMB7,026,000(2006: RMB7,100,000) was recognised for the year.

(d) On 14th March, 2006, the Company entered into a new lease agreement with BIC, pursuant to which the Company leases from BIC 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 and approximately RMB4,962,000(2006: RMB5,702,000) was recognised for the year.

(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 RMB275,553,000 (2006: RMB201,691,000) 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.

Notes to the Financial Statements

For the year ended 31st December 2007

29. RELATED PARTY DISCLOSURES (continued)

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

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

Except for amount of customer deposits for contract works of approximately RMB51,691,000 (2006: RMB45,301,000) as at 31st December, 2007, 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) Amount due to an associate

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

(v) Compensation of key management personnel

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

	2007	2006
	RMB	RMB
Short-term benefits	4,565	3,244
Post-employment benefits	82	48
	<hr/> 4,647 <hr/>	<hr/> 3,292 <hr/>

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 2007

30. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at the balance sheet date 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 by the Company		Principal activities
				2007	2006	
Directly held						
Capinfo (Hong Kong) Company Limited	Private limited company	Hong Kong	HK\$2	100%	100%	Investment holding
北京共創開源軟件有限公司 (Beijing Co-Create Open Source Software Co., Ltd.)	Private limited company	PRC	RMB12,240,000	55.97%	55.97%	Development, sales and management consultation of operation systems and related businesses
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%	90%	Software development and related businesses
東莞市龍信數碼科技 有限公司 (Dongguan City Longxin Digital Technology Company Limited)	Private limited company	PRC	RMB2,000,000	60%	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%	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 2007

30. 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 by the Company		Principal activities
				2007	2006	
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	85%	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%	100%	Providing sports related information service system; developing sports related equipment and engineering projects
遼寧眾信同行軟體發展有限公司 (Capinfo Soft Co.,Ltd.)	Private limited company	PRC	RMB5,000,000	61%	N/A	Development, sales and management consultation of operation systems and related businesses
北京首信航源科技有限公司 (Beijing Capinfo Hangyuan Science &Technology Co., Ltd.)	Private limited company	PRC	RMB1,000,000	80%	N/A	Developing, sale and implementing software and providing related technical services
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%	60%	Developing, sale and implementing software and providing related technical services

None of the subsidiaries had issued any debt securities during the year.

Financial Summary

	Year ended 31st December,				
	2003	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	279,565	241,455	254,187	223,171	288,254
Profit before taxation	8,049	2,378	7,548	11,517	50,830
Taxation	(2,048)	(4,782)	(3,118)	(2,017)	(5,496)
Profit (loss) for the year	6,001	(2,404)	4,430	9,500	45,334
Attributable to:					
Equity holders of the parent	5,949	(1,806)	4,332	11,577	47,107
Minority interests	(52)	(598)	98	(2,077)	(5,496)
	6,001	(2,404)	4,430	9,500	41,611
	As at 31st December,				
	2003	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	661,981	643,349	677,525	689,725	786,978
Total liabilities	(113,882)	(98,218)	(124,766)	(127,066)	(172,714)
Minority interests	(2,544)	(1,282)	(4,678)	(3,001)	(2,283)
Capital and reserves	545,555	543,749	548,081	559,658	611,981

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, 20 June 2008 at 9:30 a.m. for the following purposes:

As ordinary resolutions

1. To consider and approve the supervisors’ report for the year 2007;
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 2007;
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 the distribution of the final dividend for the year ended 31 December 2007; and
6. To consider and approve any motion proposed by any shareholders holding 5% or more of the shares with voting rights at such meeting, if any.

By order of the Board

CAPINFO COMPANY LIMITED*

Mr. Li Minji

Chairman

Beijing, the People’s Republic of China
28 March 2008

* For identification purpose only

Notice of Annual General Meeting

Notes:

1. The register of shareholders of the Company will be closed from 20 May 2008 (Tuesday) to 19 June 2008 (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 19 May 2008 (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 at Rooms 1901-05, 19/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shares) or the Company at 12/F, Quantum Silver Plaza, No. 23 ZhiChun Road, Haidian District, Beijing, China (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 at Rooms 1901-05, 19/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shares) or the Company at 12/F, Quantum Silver Plaza, No. 23 ZhiChun Road, Haidian District, Beijing, China (for Domestic Shares) on or before 2 June 2008 (Tuesday). The reply slip may be delivered by hand or by post.