Beijing 2008

Beijing 2008 Olympic Games
Multi-Lingual Services Supplier

CAPINFO

CAPINFO COMPANY LIMITED

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

(Stock Code: 8157)

08

Annual Report 2008

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 Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases 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	8th Floor, Kailey Tower 16 Stanley Street Central Hong Kong
Principal place of business in the PRC	12th Floor Quantum Silver Plaza No. 23 Zhi Chun Road Haidian District Beijing PRC
GEM Stock Code	8157
Website address	www.capinfo.com.cn
Company Secretary	Eric YU Tak Shing, AHKSA, CPA Australia （于德誠先生）
Compliance Officer	Ms. ZHANG Yan （張延女士）
Qualified Accountant	Eric YU Tak Shing, 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）
Dr. LI Min Ji
（李民吉博士）
Mr. YE Lu
（葉路先生）
Mr. LIU Dongdong
（劉東東先生）

Authorised Representatives

Ms. ZHANG Yan
（張延女士）

Eric YU Tak Shing, AHKSA, CPA Australia
（于德誠先生）

Authorised person to accept service of process and notice

Mr. HUEN Po Wah

Hong Kong H share registrar and transfer office

Hong Kong Registrars Limited
Rooms 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
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

Capinfo entered its 10th year of development in 2008. Since its establishment in 1998, the Company experienced 10 years of start-up and development, and has become a leading enterprise in the information industry in Beijing, with advanced technologies and quality services.

During the year, the Group continued with the promotion of its foundation businesses and robust development. Upgrading and improvement of the Medical Insurance Information System, the Community Service Information System, Beijing-China, e-Government and other systems have been successfully completed, with a comprehensive enhancement of business support capabilities, IT services of the Group entering a new level, among progresses in marketization exploration for foundation businesses, and a bright prospect for the promotion of various systems in other places. During the period under review, the Company thoroughly integrated its subsidiaries, with enhanced profitability. Outstanding results in international business development like the business cooperation and outsourcing relationship built with HP formed a solid foundation for the Group to enter into the international IT market in the future.

During the Olympics, the Group has successfully completed the technical protection tasks for the 2008 Beijing Olympics and Paralympics with its advanced, mature and reliable products and services, thus made a major contribution for the success of the Games. And the Group was named a "committed, creditworthy" enterprise by the organizing committee of the 29th Olympic Games. While achieving outstanding results in the Olympic Games, the Group has also won a good brand image and operation results.

After the Olympics, the Group will take advantage of its brand image with results achieved thereby, to further explore new business types, new customer groups and new service areas; expand room for market development of the Group; enhance overall profit level of the Group; "create value for shareholders" from time to time; and contribute efforts for the century of Capinfo.

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.

Dr. Li Minji
Chairman

Beijing, the PRC,
23 March 2009

Management Discussion and Analysis

Financial Review

The board of Directors (the "Board") of the Company announces that, for the year ended 31 December 2008, the Company and its subsidiaries (collectively the "Group") recorded an audited turnover of approximately RMB339.5 million, representing an increase of approximately 18% over that of last year, and a gross profit margin of 34%, as compared with 32% for last year. The Group has attained an audited profit attributable to equity holders of the parent of approximately RMB53.22 million for the year under review, representing an increase of approximately 13% 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 reasonable level of over 2 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 2008, the Group had unsecured borrowings of RMB9.09 million, bearing interests at an average interest rate of 2.55%. The Group had entrusted loans of RMB92 million, bearing interests at an annual interest rate of 6%, which will be repaid on 25 July 2009. Cash and bank deposits of RMB411 million of the Group as at 31 December 2008 were mainly derived from shareholders' contribution and working capital generated from operations.

As at 31 December 2008, the Group had no assets pledged and had no significant contingent liabilities.

As at 31 December 2008, the Group had capital commitment of approximately RMB11.2 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 was highly praised by customers for its excellent system functions and comprehensive services. As of 31 December 2008, the Medical Insurance System has served more than 11 million insured people, with newly insured people increasing more than 22% compared with last year, achieving the target of covering urban residents in Beijing with basic medical insurance. To further expand the service scope of the Medical Insurance System, enhance service quality, the Group conducted a large scale upgrading and improvement of the mainframe and database of the Medical Insurance System, thus significantly enhanced the overall functions of the system and raised the IT service to a new level.

- **The e-Government Network**

During the year, the e-Government Network has been running steadily, with enhanced operation maintenance level. As of 31 December 2008, the e-Government Network has almost 700 accesses for municipal people's congress and government administration departments, contracted 102 networks of various government departments, total number of units accessed amounted to almost 7,000. To increase market competitiveness of the Network, the Group conducted system renovation for the e-Government Network, developed virtual network businesses, and achieved good results in marketization exploration.

- **The Community Service Information System**

The Community Service Information System has been renewed and renovated successfully, with fully enhanced business support capabilities. As of 31 December 2008, the Community Service Information System successfully completed convenience projects like "Olympic Volunteers", "Snow Storm Donation for the South", "Orphan Adoption Consultation for Sichuan Wenchuan Earthquake", "Marriage Registration Enquiry", "Dispensary in Community", with the help of the community hotline "96156", social services portals and other public services platforms, with highly recognized service quality from users. The system has now developed into a major support system for new community services and large scale social projects, and has been widely promoted in Guangdong Province, Hubei Province and other districts.

Management Discussion and Analysis

- **Beijing-China**

  "Beijing-China" is a portal website for the Beijing Municipal, and has been named the "No. 1 Nationwide Government Portal" consecutively for two years for its high speed, stable, safe and convenient network services, with a current monthly hit count of nearly 200 million for its Chinese version. During the period under review, to raise the overall operation level of "Beijing-China", the Group conducted a comprehensive upgrading for its system structure, thus significantly enhanced and consolidated the capability of the Group to provide IT services for government portals and e-commerce customers at network terminals, and formed a good brand foundation for the future development of "Portal IT Outsourcing Services".

Results of the Olympics Projects

Together with the closing ceremonies of the 29th Olympics Games and the 2008 Beijing Paralympics Games, the Group completed its task of "Ensure a Peaceful Olympics". During the Olympics and the Paralympics, the Group became a number one in Olympic history, i.e. the first Olympic multilingual services provider, and made a significant contribution to the Olympics with its "Olympic Multilingual Services System", which has been on top of the "2008 InfoBeijing Ten Application Result Awards ".

For the period under review, from the "Good Luck Beijing" trial tournament to the closing ceremonies of the Olympics and the Paralympics Games, the Group has undertook various Olympic information service system construction and maintenance tasks like "OOC Main Operation Centre", "Head Communication System", "Paralympics Results System", "Ticket Data Analysis System", "E-mail Anti-virus System" and OOC information System outsourcing, and successfully completed such tasks with its outstanding technical management level and service quality. The Company was approved and appraised by the Beijing Municipal Government, the 29th Olympic Organizing Committee, various government departments and other institutions, and hereby won a good brand image, as well as promising operation performance.

Chief Executive Officer Wang Xu at the Olympic Torch Relay in Tianjin

Management Discussion and Analysis

International Business Development

During the year, based on its successful experience and brand advantage in system operation and maintenance and industry software system development, the Group built up a standardized business cooperation and outsourcing service relationship with HP, an international IT conglomerate, and acquired supplier qualifications for HP BPO and ITO of HP GDCC. The results marked the Group as a long term cooperation partner for international renowned enterprises, and formed a foundation for further entering into the international IT service market.

Future Prospects

2009 will be a year of in-depth adjustments in world and Chinese economies, with difficult tasks and rare opportunities, thus a bright prospect. With years' successful experience and outstanding IT service technology advantages, the Group is in a great position to explore for an internationalized development path with Capinfo characteristics.

The tenth anniversary celebration of Capinfo Group

Employees

As at the end of 2008, the Group had 755 employees (2007: 837). The payable staff cost was approximately RMB99.52 million (2007: RMB63.97 million).

Directors, Supervisors and Senior Management

Executive Directors

Dr. WANG Xu (汪旭博士), aged 40, a Group Executive Director since July 2001 and currently the Chief Executive Officer of the Group and was responsible for the administration and execution of the general business strategies of the Group. Dr. Wang received his doctorate degree in Technical Economics at School of Economics and Management of Tsinghua University in 1998. He joined the Group in the same year.

Ms. ZHANG Yan (張延女士), aged 55, a Group Executive Director since July 2001 and currently the Chief Financial Officer appointed by the Board. Ms. Zhang received a bachelor degree from the School of Business and Economics of the People's University of China in 1985, joined the Group in March 1998. Ms. ZHANG previously occupied the head of corporate finance department of the Stone Group, chief of finance department of the Hong Kong Stone Company and vice-president of corporate finance of the Stone Group prior to joining the Group.

Non-executive Directors

Dr. LI Minji (李民吉博士), aged 44, is currently the chairman of the Group and vice-general manager of the State-owned Assets Management Corporation Limited ("BSAM"). Mr. Li joined the Group in September 2004 as a Group non-executive Director, and was appointed the chairman of the Group in July 2007. Mr. Li graduated from the Faculty of Finance and Administration of the People's University of China in 1988 and received a master's degree in economics. He received his doctorate degree in management at Huazhong University of Science and Technology in 2008. He successively served as the vice-general manager of Wuhan International Trust and Investment Corporation Limited, vice-general manager of Capital Securities Co., Ltd., chief executive officer of Beijing Venture Capital Co., Ltd. prior to joining the Group.

Mr. XU Zhe (徐哲先生), aged 39, a Group non-executive Director since July 2003, is currently the director 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 prior to joining the Group.

Mr. PAN Jiaren (潘家任先生), aged 69, a Group non-executive Director since July 2001, 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 1963 with a bachelor degree. Mr. Pan has served successively as the vice-dean of the institute of Design of the Ministry of Broadcasting and Television (MBT), the factory director of Shuang Qiao Equipment Manufacturing Plant of MBT and the head of Aerial Specialist Committee under the Science and Technology Committee of MBT prior to joining the Group.

Directors, Supervisors and Senior Management

Mr. QI Qigong (戚其功先生), aged 48, a Group non-executive Director since July 2001, is currently the vice-general manager of China Netcom Corporation Beijing Branch. Mr. Qi graduated from Hong Kong University of Science and Technology with a master degree in international business management for senior executives. He served successively as the assistant chief, vice-director of Financial Section of Beijing Telecom Management Bureau, as well as the manager of finance department and the vice-general manager of Beijing Telecom Company prior to joining the Group.

Ms. LU Xiaobing (盧小冰女士), aged 55, a Group non-executive Director since June 2007, 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 and administration at Tianjin University (天津大學) in 1999. Ms. Lu had worked in the Chaoyang District Agency of Beijing of Industrial and Commercial Bank of China (工商銀行北京朝陽區辦事處) and the Science Division of the People's Bank of China (中國人民銀行科技司) prior to joining the Group.

Dr. XIA Peng (夏鵬博士), aged 44, a Group non-executive Director since March 2006, is currently the chief financial officer 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 of China 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 prior to joining the Group.

Independent non-executive Directors

Mr. CHEN Jing (陳靜先生), aged 65, a Group independent non-executive Director since October 2006, 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 adjunct 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 of science division of the People's Bank of China, office director of National Banking Informatization Leading Group, and chief of Chengdu Computer Application Institute of Chinese Academy of Sciences prior to joining the Group.

Mr. YE Lu (葉路先生), aged 64, a Group independent non-executive Director since October 2006, 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 Industry Association. Mr. Ye graduated from Tsinghua University, majoring in computer science. He successively held positions in the national defence industry office of China State Council, the State Committee of Defence Science and Industry and General Armament Department of the People's Liberation Army and served as the military attache (defence science and technology) of the Chinese Embassy in Great Britain prior to joining the Group.

Directors, Supervisors and Senior Management

Mr. LIU Dongdong (劉東東先生), aged 35, a Group independent non-executive Director since September 2004, is currently executive director of Beijing Jingdu Management Consultant Company Limited and a consultant to the Internal Control Standard Committee of the Ministry of Finance. Mr. Liu graduated from the North East University of Finance and Economics in 1997 and received a bachelor degree in economics. He is a member of the Chinese Institute of Certified Public Accountants and the Association of Chartered Certified Accountants since 2000 and successively served as senior accountant of Shougang Group Corporation, project manager of BDO International Beijing Jingdu Certified Public Accountants Co., Ltd prior to joining the Group.

Qualified Accountant and Company Secretary

Eric YU Tak Shing (于德誠先生), aged 40, a Group Qualified Accountant and Company Secretary since March 2008. Mr Yu graduated from University of Wollongong, Australia in 1993 and received a bachelor degree in business. He is a member of CPA, Australia and Hong Kong Institute of Certified Public Accountants (AHKSA). Prior to joining the Group, 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.

Supervisors

Ms. LIU Jian (劉健女士), aged 58, a Group chairman of the board of Supervisors since July 2001, is currently a director and vice president of BSAM. Ms. Liu graduated in 1993 from the Shanghai Finance University with a master degree. Ms. Liu had served as vice-head of Jiangxi Pharmaceutical Factory, head of Jiangxi Medical Equipment Factory, vice-chairman of the board of directors and chief financial officer of Beijing Wandong Medical Instrument Company and chief financial officer in Beijing Outbound Financing and Investment Management Centre prior to joining the Group.

Ms. GAO Yuanjun (高遠軍女士), aged 53, a Group Supervisor since June 2008, is currently the Senior Business Manager of the Audit Department of Beijing State-owned Assets Management Corporation Limited. Ms. Gao graduated from No. 2 Branch, Renmin University of China in February 1983, majoring in Business and Economic Administration. Ms. Gao has served as Cadre of Beijing Finance Bureau, vice-General Manager of Beijing Huian Economic Development Company and General Manager of Beijing Chunyihe Restaurant prior to joining the Group.

Directors, Supervisors and Senior Management

Ms. XU Xiangyan (許向燕女士), aged 36, a Group Supervisor elected by staff as staff representative since May 2008, is currently the vice-General Manager of the Investment Management Center of the Group. Ms. Xu graduated from the School of Management of Tianjin University in 1998, majoring in Technology Economics, and obtained a master degree, and joined the Group in the same year. Ms. Xu has served as vice-General Manager of Capital Operation Center and vice-General Manager of Strategic Management Department of the Group.

Senior Management

Dr. GAO Jiaqing (高佳卿博士), aged 38, jointed the Group in October 2003, is the secretary of the Board of Directors and Chief Officer of IT Service of the Group. He is also the executive officer of the Contemporary Financiers (當代金融家) and vice president of Beijing Computer Business Association (電子商務協會). Dr. Gao graduated from the Faculty of Management of the Harbin Institute of Technology 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. WU Bo (吳波博士), aged 52, joined the Group in August 2000, is the group chief director, mainly responsible for the management of electronic community services centre, application system development and e-government services centre of the Group. Dr. Wu graduated from the Faculty of Optical Engineering of Huazhong University of Science and Technology in 1982 and 1984 with a bachelor and a master degree in engineering and science respectively. He received a doctorate degree in 1991 in the Doctor Student Training Program co-operatied by the Bonn University in Germany and the Dalian University of Science and 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 of the United States of America, the General Manager of Beijing Corghi Auto Services Equipment Co., Ltd., the Chairman of Beijing Taigu'er Mechanical and Electrical Technology Co., Ltd and the General Manager of Beijing Credit Management Company Limited prior to joining the Group.

Directors, Supervisors and Senior Management

Ms. LI Wei (李薇女士), aged 50, joined the Group in July 2004, is the group chief director of business development and general managing director of Beijing Sports Technology Co., Ltd., and is responsible for the coordination, planning and managing 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 School of Computer Science of China University of Geosciences, 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, and a adjunct professor of the School of Business of Wuhan University.

Mr. ZHENG Zhiguang (鄭志廣先生), aged 54, joined the Group in February 2000, is currently the group chief director and is responsible for the management of the group's social security application and services. Mr. Zheng graduated in 1982 from Beijing University of Aeronautics & Astronautics (北京航空學院) and received a bachelor degree. Prior to joining the Group, Mr. Zheng had served as the responsible officer 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).

Mr. YU Donghui (余東輝先生), aged 36, joined the Group in June 1999, is currently the group chief director. Mr. Yu graduated from Tsinghua University in the major of Materials Processing Engineering with a master degree, and joined the Group in 1999. He is responsible for the business of group network technology services centre, network operation centre, quality technology management, housing pension service and Capinfo Call Center.

Mr. LIU Shu (劉舒先生), aged 37, 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 degree. Prior to joining the Group, Mr. Liu had served as the financial manager of the import and export corporate of Beijing Chemical Industry Group (北京化工集團), and the cheif financial officer of Pudu Investment Holdings Co., Ltd..

Directors, Supervisors and Senior Management

Mr. AI Jianjing (艾建京先生), aged 55, joined the Group in April 2001, is currently the group chief engineer who responsible for the design, development, operation, maintenance and services of the information system of the 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 vice-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 vice-general manager and chief engineer of CAST Information System Technology Co., Ltd. (信息系統技術有限公司), and the vice-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).

Mr. LU Shouqun (陸首群先生), aged 72, 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 director 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 1958. Prior to joining the Group, Mr. Lu was the vice-Director of the State Council Informatization Office, Chairman of the Board of Jitong Company, head of the Office for the Beijing Electronics Development, director of the Office for the Electronic Industry of the Beijing Municipal Government and Chairman of the China Great Wall Computer Group.

Dr. CHEN Xinxiang (陳信祥博士), aged 66, joined the Group in January 1998 and was appointed as the group vice president in the same year. He served as the group executive director and chairman subsequently. Dr. Chen resigned chairman in July 2007 due to his senior age, he is currently the group honour chairman. Dr. Chen graduated from the Department of Precision Instrument and Mechanical Manufacturing of Tsinghua University 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 committee and the chief representative of SAP in China.

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 2008.

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 4 board meetings during the year under review.

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

Directors	**Attendance**
Executive Directors	
Dr. Wang Xu (*Chief Executive*)	4/4
Ms. Zhang Yan	4/4
Non-executive Directors	
Dr. Li Minji	4/4
Mr. Xu Zhe	4/4
Mr. Qi Qigong	2/4
Mr. Pan Jiaren	4/4
Dr. Xia Peng	1/4
Ms. Lu Xiaobing	4/4
Mr. Xing Dehai (resigned on 2 June 2008)	2/4
Mr. Bai Liming (resigned on 2 June 2008)	2/4
Dr. Wu Bo (resigned on 2 June 2008)	2/4
Mr. Liu Zhiyong (resigned on 21 February 2008)	0/4

Corporate Governance Report

Directors	**Attendance**
Independent Non-executive Directors	
Mr. Chen Jing	4/4
Mr. Ye Lu	4/4
Mr. Liu Dongdong	4/4

The Board of Directors, which currently comprises eleven 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.

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.

Corporate Governance Report

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 and Dr. Li Minji. Dr. Li Minji is the chairman and 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 Mr. Chen Jing, Dr. Li Minji, Mr. Ye Lu and Mr. Liu Dongdong attended the said meeting.

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.

Auditors' Remuneration

During the year under review, the Company had paid to the external auditor of the Company, Deloitte Touche Tohmatsu, approximately RMB1,050,000 and RMB500,000 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.

Corporate Governance Report

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 *(Chairman)*	4/4
Mr. Ye Lu	4/4
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.

Directors' and Auditors Responsibilities for Accounts

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

Internal Control

The Board of Directors has conducted a review 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 2008.

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. In 2008, the Group successfully completed various construction and maintenance tasks for the information service systems of the Olympic Games and the Paralympic Games, thus built up a good brand image for the Group.

The principal activities of the Company's subsidiaries are set out in note 33 to the financial statements.

Results

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 33 of the annual report.

The Board of Directors recommend the payment of a dividend for the year ended 31 December 2008.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

Property, Plant and Equipment

During the year, the Group incurred an aggregate of approximately RMB80.095 million in the acquisition of property, plant and equipment, which mainly comprised the construction in progress, the construction of network and the acquisition of computer and network equipment. Details of these and other movements during the year in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Directors and Supervisors and Service Contracts

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

Executive directors:

Dr. Wang Xu *(Chief Executive)*
Ms. Zhang Yan

Directors' Report

Non-executive directors:

Dr. Li Minji
Mr. Xu Zhe
Mr. Qi Qigong
Mr. Pan Jiaren
Dr. Xia Peng
Ms. Lu Xiaobing
Mr. Xing Dehai (resigned on 2 June 2008)
Mr. Bai Liming (resigned on 2 June 2008)
Dr. Wu Bo (resigned on 2 June 2008)
Mr. Liu Zhiyong (resigned on 21 February 2008)

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
Ms. Gao Yuanjun (appointed on 20 June 2008)
Ms. Xu Xiangyan (elected a Supervisor by staff as staff representative on 5 June 2008)
Mr. Zhang Zhenlong (resigned on 20 May 2008)
Mr. Yao Yuan (resigned on 20 May 2008)

All executive Directors have entered into service contracts with the Company on 6 December 2001 for a term of three years, and 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, Mr. Liu Zhiyong resigned on 21 February 2008 as non-executive Director, Mr. Xing Dehai, Mr. Bai Liming and Dr. Wu Bo resigned on 20 June 2008 as non-executive Directors and Mr. Zhang Zhenlong and Mr. Yao Yuan resigned on 20 May 2008 as supervisors, 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 Executive of the Company*

Save as disclosed below, as of 31 December 2008, none of the Directors and chief executive of the Company had any interest and short position in shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

	Number of H Shares subject to options outstanding as of 31 December 2008			
Name	**Granted under the Pre-IPO Share Option Plan**	**Granted under the Share Option Scheme**	**Total**	**Percentage to the issued H share capital**
Directors				
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%
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%
	5,094,850	5,864,000	10,958,850	1.42%

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

Directors' Report

within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to the terms and conditions of the Pre-IPO Share Option Plan, restrictions imposed by the relevant PRC laws and regulations and any conditions of the grant as stipulated by the Board of Directors:

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

All of the above-mentioned share options (the" Share Options") granted under the share option scheme of the Company (the" Share Option Scheme") were granted on 17 August 2004 at RMB1 per grant with an exercise price of HK$0.41 per H Share. These share options are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to restrictions imposed by the relevant PRC laws and regulations:

Proportion of share options granted and held by each of the Directors which become exercisable	**Exercise period**
25%	18 August 2005 to 17 August 2014
25%	18 August 2006 to 17 August 2014
25%	18 August 2007 to 17 August 2014
25%	18 August 2008 to 17 August 2014

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

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of the Company of any person (other than a Director or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as at 31 December 2008:

Name of shareholder	Number of shares	Nature of interests	Percentage to the issued share capital
Beijing State-owned Assets Management Corporation Limited	1,834,541,756 domestic shares	Beneficial owner	63.31%

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 of 31 December 2008:

Name	Equity interests held 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 (重慶宏信軟件有限公司)	Beneficial owner	10%
Dongguan City Shilongzhen Industrial Company (東莞市石龍鎮工業總公司)	Dongguan City Longxin Digital Technology Company Limited (東莞市龍信數碼科技有限公司)	Beneficial owner	40%
Fu Zengxue (付增學)	Beijing Hongxin Software Company Limited (北京宏信軟件有限公司)	Beneficial owner	40%
China Association of Mayors	Beijing City Technology Development Co., Ltd	Beneficial owner	15%

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 option has been granted with an exercise price of HK$0.48 per H Share (the placing price of the H Shares of the Company upon issued) 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 option is as follows:

	At 1 January 2008	Lapsed or transferred to other classes during the period	At 31 December 2008
Directors of the Company	6,356,550	(1,261,700)	5,094,850
Supervisors of the Company	2,509,450	(1,264,800)	1,244,650
Senior management of the Company	4,836,620	*1,261,700	5,313,400
		(784,920)	
Senior consultant of the Company	3,929,250	–	3,929,250
Consultant of the Company	2,808,910	(745,860)	2,063,050
Other employees of the Company and its subsidiaries	17,563,670	(758,880)	16,804,790
	38,004,450	(3,554,460)	34,449,990

**Notes:* Dr. Wu Bo resigned as the executive director of the Company on 2 June 2008, he is currently the chief officer of the Company. All of the share options of the Company held by Dr. Wu Bo were transferred from the class of original director to the class of senior management.

Directors' Report

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

	At 1 January 2008	Lapsed or transferred to other classes during the period	At 31 December 2008
Directors of the Company	7,330,000	(1,466,000)	5,864,000
Supervisors of the Company	2,932,000	(1,466,000)	1,466,000
Senior management of the Company	7,700,000	*1,466,000 (1,925,000)	7,241,000
Senior consultant of the Company	13,964,000	–	13,964,000
Consultant of the Company	2,384,000	(459,000)	1,925,000
Other employees of the Company and its subsidiaries	18,313,000	(1,305,000)	17,008,000
	52,623,000	(5,155,000)	47,468,000

**Notes:* Dr. Wu Bo resigned as the executive director of the Company on 2 June 2008, he is currently the chief officer of the Company. All of the share options of the Company held by Dr. Wu Bo were transferred from the class of original director to the class of senior management.

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 year ended 31 December 2008.

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 2008 have been reviewed by the audit committee, which was of the view that the preparation of the financial statements were in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements.

Directors' Report

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the 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 32(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 32(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 32(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 72.25% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 62.99% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 42.59% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 27.28% 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.

By order of the Board

Dr. Li Minji
Chairman

Beijing, the PRC,
23 March 2009

Supervisors' Report

In 2008, in accordance with the Company Law, the Security 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 the interests of the Company and shareholders as a whole.

During the year, the Supervisory Committee effectively monitored operation activities of the Company, 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:

I. The internal control system of the Company was sound and the decision-making procedures of the Company were legal. The Board properly implemented various resolutions of the shareholders' general meetings, with no act jeopardizing the interests of the Company or shareholders, and various resolutions of the Board complied with requirements of the Company Law and other laws and regulations and the Articles of Association.

II. The management of the Company performed its due diligent duty, properly implemented various resolutions of the Board, achieved good operation results, and fully completed various operation tasks assigned by the Board in the beginning of the year, there is no violation of any applicable regulations in the operation.

During the period, the Supervisory Committee held four meetings, seriously reviewed the Company's quarterly, interim and annual financial statements, review and audit reports. The Supervisory Committee has seriously reviewed and analyzed the Company's financial statements for 2008. 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 requirements. The 2008 financial report has, in all major aspects, fairly reflected the Company's financial status and operating results."

In 2009, the Supervisory Committee will strictly comply with requirements of the Company Law, the Articles of Association and other laws and regulations, truthfully perform its duties, and further promote regulated operation of 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,
23 March 2009

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 33 to 88, which comprise the consolidated balance sheet as at 31st December, 2008, 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, 2008 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

23rd March, 2009

Consolidated Income Statement

For the year ended 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Turnover	5	**339,499**	288,254
Cost of sales		**(225,357)**	(195,439)
Gross profit		**114,142**	92,815
Other income		**16,456**	18,331
Gain on disposal of a subsidiary	7	**1,777**	–
Fair value gain on investments held for trading		**3,447**	31,094
Research and development costs		**(16,486)**	(22,004)
Marketing and promotional expenses		**(15,308)**	(8,657)
Administrative expenses		**(41,824)**	(57,336)
Interest on other loan wholly repayable within five years		**(255)**	(213)
Share of losses of associates		**(3,344)**	(3,200)
Profit before tax	8	**58,605**	50,830
Income tax expense	11	**(6,090)**	(5,496)
Profit for the year		**52,515**	45,334
Attributable to:			
Equity holders of the Company		**53,215**	47,107
Minority interests		**(700)**	(1,773)
		52,515	45,334
Earnings per share-Basic	13	**RMB1.84 cents**	RMB1.63 cents

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	14	**241,930**	227,158
Interests in associates	15	**24,245**	29,748
Available-for-sale investments	16	**1,350**	1,350
Deposits paid on acquisition of property, plant and equipment		**5,098**	2,363
Trade receivables – non-current	19	**7,881**	–
Deferred tax assets	20	**1,537**	–
		282,041	260,619
Current assets			
Inventories	17	**1,801**	1,127
Amounts due from customers for contract works	18	**31,481**	30,268
Trade and other receivables	19	**45,397**	38,171
Amounts due from associates		**–**	316
Entrusted loan	21	**88,832**	–
Bank deposits	19	**239,300**	10,800
Bank balances and cash	19	**171,748**	445,677
		578,559	526,359
Current liabilities			
Trade and other payables	22	**148,787**	103,496
Amounts due to associates		**644**	643
Customer deposits for contract works		**64,620**	51,691
Income tax payable		**10,980**	7,794
Other loan	23	**9,090**	9,090
		234,121	172,714
Net current assets		**344,438**	353,645
Total assets less current liabilities		**626,479**	614,264

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	24	**289,809**	289,809
Reserves		**334,813**	322,172
Equity attributable to equity holders of the Company		**624,622**	611,981
Minority interests		**1,857**	2,283
Total equity		**626,479**	614,264

The consolidated financial statements on pages 33 to 88 were approved and authorised for issue by the board of directors on 23rd March, 2009 and are signed on its behalf by:

Dr. Li Minji	**Dr. Wang Xu**
CHAIRMAN	*CHIEF EXECUTIVE OFFICER*

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2007	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	–	–	–	–	–	–	475	475
Share of capital reserve of an associate contributed from an equity owner in excess of its proportionate interest	–	–	5,216	–	–	5,216	580	5,796
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
Dividend paid	–	–	–	–	(40,574)	(40,574)	–	(40,574)
Profit for the year (total recognised income for the year)	–	–	–	–	53,215	53,215	(700)	52,515
Capital contribution from minority owner of a subsidiary	–	–	–	–	–	–	240	240
Profit appropriations	–	–	–	4,800	(4,800)	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	34	34
At 31st December, 2008	289,809	254,079	5,216	14,332	61,186	624,622	1,857	626,479

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	NOTE	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before tax		**58,605**	50,830
Adjustments for:			
Interest income from bank deposits		**(5,319)**	(2,906)
Interest income from entrusted loan		**(1,769)**	–
Interest expenses		**255**	213
Share of losses of associates		**3,343**	3,200
Gain on disposal a subsidiary		**(1,777)**	–
Depreciation		**65,031**	67,671
(Gain) loss on disposal of property, plant and equipment		**(227)**	171
(Reversal of) impairment loss recognised in respect of inventories		**(376)**	1,088
Allowance for doubtful debts		**1,828**	3,639
Gain on disposal of assets		**–**	(3,445)
Operating cash flows before movements in working capital		**119,594**	120,461
(Increase) decrease in inventories		**(342)**	488
Increase in amounts due from customers for contract work		**(4,158)**	(5,296)
Increase in trade and other receivables		**(16,552)**	(1,104)
Increase in trade and other payables		**47,176**	34,681
Increase in customer deposits for contract work		**12,929**	6,390
(Decrease) increase in amounts due to associates		**(173)**	643
Cash generated from operations		**158,474**	156,263
PRC income tax paid		**(4,441)**	(605)
Net cash from operating activities		**154,033**	155,658

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	NOTE	2008 RMB'000	2007 RMB'000
Investing activities			
Interest received		**5,319**	2,906
Dividend received from an associate		**2,159**	2,121
Purchase of property, plant and equipment		**(75,751)**	(68,554)
Deposits paid on acquisition of property, plant and equipment		**(5,098)**	(47)
Proceeds from disposal of property, plant and equipment		**34**	215
Proceeds from disposal a subsidiary	7	**1,719**	–
Investments in associates		**–**	(1,000)
Prepayment from (advance to) associates		**316**	(226)
(Increase) decrease in bank deposits		**(228,500)**	13,767
Advance of entrusted loan		**(88,000)**	–
Net cash used in investing activities		**(387,802)**	(50,818)
Financing activities			
Interest paid		**–**	(213)
Repayment of borrowings		**–**	(910)
Advances from associates		**174**	–
Capital contribution from minority owner of a subsidiary		**240**	475
Dividend paid		**(40,574)**	–
Net cash used in financing activities		**(40,160)**	(648)
Net (decrease) increase in cash and cash equivalents		**(273,929)**	104,192
Cash and cash equivalents at 1st January		**445,677**	341,485
Cash and cash equivalents at 31st December, represented by bank balances and cash		**171,748**	445,677

Notes to the Financial Statements

For the year ended 31st December, 2008

1. GENERAL

The Company is a limited company established in Beijing, the People's Republic of China (the "PRC") and its H shares are listed on The Stock Exchange of Hong Kong limited (the "Stock Exchange"). 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 the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

2 Effective for annual periods beginning on or after 1st January, 2009

3 Effective for annual periods beginning on or after 1st July, 2009

4 Effective for annual periods ending on or after 30th June, 2009

5 Effective for annual periods beginning on or after 1st July, 2008

6 Effective for annual periods beginning on or after 1st October, 2008

7 Effective for transfers on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared 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 and by the Hong Kong Companies Ordinance.

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, 2008

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, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress 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.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land

Interest in leasehold land is accounted for as operating lease and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. If the allocation of lease payments between leasehold land and buildings elements cannot be made reliably, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment.

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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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, entrusted loan, 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 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).

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.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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.

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 loss 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.

Notes to the Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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 other than goodwill

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 the 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, 2008

5. REVENUE

Revenue represents revenue generated from sales of goods and income from technical service contracts during the year. An analysis of the Group's revenue for the year is as follows:

	2008	2007
	RMB'000	RMB'000
Sales of goods	**9,730**	4,696
Income from technical service contracts	**329,769**	283,558
Total income	**339,499**	288,254

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

e-Government technology services – the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment to government body and its related entities.

e-Commerce technology services – the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment to non-government related entities.

Notes to the Financial Statements

For the year ended 31st December, 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Business segments for the year are as follows:

	2008		2007	
	Turnover	**Results**	Turnover	Results
	RMB'000	**RMB'000**	RMB'000	RMB'000
e-Government technology services	**329,937**	**71,001**	275,553	66,666
e-Commerce technology services	**9,562**	**(4,868)**	12,701	(12,817)
	339,499	**66,133**	288,254	53,849
Gain on disposal of a subsidiary		**1,777**		–
Other income		**11,460**		38,201
Unallocated administrative expenses		**(17,167)**		(37,807)
Interest on other loan wholly repayable within five years		**(255)**		(213)
Share of losses of associates engaged in other businesses		**(3,343)**		(3,200)
Profit before tax		**58,605**		50,830
Income tax expense		**(6,090)**		(5,496)
Profit for the year		**52,515**		45,334

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

Geographical segments

The Group's operations are situated in the PRC in which its revenue is derived principally therefrom. Accordingly, no geographical segments by geographical market based on location of customers were presented. All assets of the Group are located in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2008

7. DISPOSAL OF A SUBSIDIARY

On 28th December, 2007, the Company entered into a conditional sale agreement with third parties to dispose of a subsidiary, Beijing Co-Create Open Source Software Co., Ltd., for a cash consideration of RMB1,735,000. The subsidiary was engaged in development, sales and management consultation of operation systems and related businesses. The disposal was completed on 15th January, 2008, on which date control of Beijing Co-Create Open Source Software Co., Ltd. passed to the acquirer.

There was no significant profit and loss generated by the subsidiary during 2008 up to the date of disposal as the subsidiary has temporarily closed for office removal during the period. The revenue and cost of sales of this subsidiary for the year ended 31st December, 2007 was RMB2,499,000 and RMB1,864,000 respectively and the loss of this subsidiary for the year ended 31st December, 2007 was RMB3,334,000.

The net liabilities of Beijing Co-Create Open Source Software Co., Ltd. at the date of disposal were as follows:

	15.1.2008
	RMB'000
Net liabilities disposed:	
Property, plant and equipment	**242**
Inventories	**45**
Amount due from customers for contract work	**2,945**
Trade and other receivables	**797**
Bank balances and cash	**16**
Trade and other payables	**(4,121)**
	(76)
Minority interests	**34**
Gain on disposal	**1,777**
Total consideration	**1,735**
Satisfied by:	
Cash	**1,735**
Net cash inflow arising on disposal:	
Cash consideration	**1,735**
Bank balances and cash of subsidiary disposed of	**(16)**
	1,719

Notes to the Financial Statements

For the year ended 31st December, 2008

8. PROFIT BEFORE TAX

	2008 **RMB'000**	2007 RMB'000
Profit before tax has been arrived at after charging:		
Directors' and supervisors' remuneration (Note 9)	**1,550**	2,029
Other staff costs	**92,625**	57,855
Other staff's retirement benefit scheme contributions	**5,347**	4,087
	99,522	63,971
Less: Staff costs included in research and development costs	**(9,893)**	(7,513)
Staff costs included in cost of sales	**(32,758)**	(24,826)
	56,871	31,632
Depreciation	**65,031**	67,671
Less: Depreciation included in research and development costs	**(1,658)**	(1,381)
Depreciation included in cost of sales	**(51,205)**	(61,929)
	12,168	4,361
Operating lease rentals in respect of		
– cable network	**11,377**	8,303
– land and buildings	**13,793**	9,793
	25,170	18,096
Less: Operating lease rentals included in research and development costs	**(909)**	(1,094)
Operating lease rentals included in cost of sales	**(8,316)**	(9,079)
	15,945	7,923
Allowance for doubtful debts	**1,828**	4,483
Auditors' remuneration	**1,733**	1,607
Cost of inventories recognised as expenses	**45,246**	23,923
(Gain) loss on disposal of property, plant and equipment	**(227)**	171
(Reversal of) impairment loss recognised in respect of inventories	**(376)**	1,088
Impairment of interest in an associate (included in share of losses of associates)	**–**	867
Share of tax of an associate (included in share of losses of associates)	**416**	367
and after crediting:		
Government grants *(note)*	**8,443**	11,535
Interest income from bank deposits	**5,319**	2,906
Interest income from entrusted loan	**1,769**	–

Note: 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, cable network and research and development costs are compensated.

Notes to the Financial Statements

For the year ended 31st December, 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2008 RMB'000	2007 RMB'000
Fees		
– independent non-executive directors	**150**	133
– executive directors, other non-executive directors and supervisors	**–**	–
	150	133
Other emoluments for non-executive directors	**–**	–
Other emoluments for executive directors		
– basic salaries and allowances	**1,153**	1,684
– retirement benefit scheme contributions	**22**	33
	1,175	1,717
Other emoluments for supervisors		
– basic salaries and allowances	**219**	173
– retirement benefit scheme contributions	**6**	6
	225	179
	1,550	2,029

Notes to the Financial Statements

For the year ended 31st December, 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The emoluments paid or payable to each of the 20 (2007: 20) directors and supervisors were as follows:

		Other emoluments		
2008	**Fees RMB'000**	**Basic salaries and allowances RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total RMB'000**
Directors				
Dr. Wang Xu	–	597	9	606
Ms. Zhang Yan	–	381	9	390
Dr. Wu Bo (resigned on 2nd June, 2008)	–	175	4	179
Dr. Li Minji	–	–	–	–
Mr. Xu Zhe	–	–	–	–
Dr. Xia Peng	–	–	–	–
Mr. Pan Jiaren	–	–	–	–
Ms. Lu Xiaobing	–	–	–	–
Mr. Qi Qigong	–	–	–	–
Mr. Bai Liming (resigned on 2nd June, 2008)	–	–	–	–
Mr. Xing Dehai (resigned on 2nd June, 2008)	–	–	–	–
Mr. Liu Zhi Yong (resigned on 21st February, 2008)	–	–	–	–
Mr. Liu Dongdong	50	–	–	50
Mr. Chen Jing	50	–	–	50
Mr. Ye Lu	50	–	–	50
Supervisors				
Ms. Liu Jian	–	–	–	–
Mr. Zhang Zhenlong (resigned on 20th May, 2008)	–	–	–	–
Mr. Yao Yuan (resigned on 20th May, 2008)	–	–	–	–
Ms. Xu Xiangyan (appointed on 5th June, 2008)	–	219	6	225
Ms. Gao Yuanjun (appointed on 20th June, 2008)	–	–	–	–
	150	1,372	28	1,550

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For the year ended 31st December, 2008

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

2007	Fees RMB'000	Other emoluments: Basic salaries and allowances RMB'000	Other emoluments: Retirement benefit scheme contributions RMB'000	Total RMB'000
Directors				
Dr. Wang Xu	–	522	8	561
Ms. Zhang Yan	–	346	8	354
Dr. Chen Xinxiang (resigned on 23rd July, 2007)	–	440	9	448
Mr. Li Minji	–	–	–	–
Mr. Xing Dehai	–	–	–	–
Mr. Xu Zhe	–	–	–	–
Mr. Bai Liming	–	–	–	–
Dr. Wu Bo	–	346	8	354
Dr. 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)	–	–	–	–
Mr. 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

No directors have waived any emoluments in the year ended 31st December, 2008 (2007: Nil).

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For the year ended 31st December, 2008

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one(2007: four) executive directors of the Company, whose emoluments are included in Note 8 above. The emolument of the remaining four (2007: one) highest paid individual as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**2,376**	451
Retirement benefit scheme contributions	**37**	8
	2,413	459

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. Their emoluments were all within RMB1,000,000.

11. INCOME TAX EXPENSE

The Company is recognised as a New and High-Tech Enterprise, according to the Law of the People's Republic of China on Enterprise Income Tax and subject to PRC income tax at 15% (2007: 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 are entitled to exemption from income tax for three years commencing from the first profit-making year of operation and thereafter and entitled to a 50% relief from income tax for the next three years ("Tax Holiday").

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 RMB2,402,000 for the year ended 31st December, 2007 is recognised in the current year and a tax credit of approximately RMB705,000 for the year ended 31st December, 2006 is recognised in last year.

Notes to the Financial Statements

For the year ended 31st December, 2008

11. INCOME TAX EXPENSE (continued)

	2008	2007
	RMB'000	RMB'000
The charge comprises:		
PRC income tax		
Current year	**10,029**	6,201
Tax credit for previous year	**(2,402)**	(705)
	7,627	5,496
Deferred tax assets	**(1,537)**	–
	6,090	5,496

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

	2008	2007
	RMB'000	RMB'000
Profit before tax	**58,605**	50,830
Tax at domestic income tax rate of 15% (2007: 15%)	**8,791**	7,625
Tax effect of expenses that are not deductible in determining taxable profit	**584**	915
Tax effect of Tax Holiday granted to subsidiaries	**(2,244)**	(3,889)
Tax effect of tax losses of subsidiaries not recognised	**860**	1,070
Tax effect of share of losses of associates not recognised	**501**	480
Tax credit for previous year	**(2,402)**	(705)
Tax expense for the year	**6,090**	5,496

At the balance sheet date, the subsidiaries have unused tax losses of approximately RMB16,000,000 (2007: RMB25,000,000) 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 2013.

Notes to the Financial Statements

For the year ended 31st December, 2008

12. DIVIDEND

A final dividend of RMB1.40 cents (2006: Nil) per share, amounting to an aggregate amount of RMB40,574,000 (2006: Nil) for the year ended 31st December, 2007 has been declared and paid during the year.

Proposed profit distribution for 2008, RMB0.52 cent in cash for every share (per tax) or a total of RMB15,000,000, based on the Company's total share capital of 2,898,086,091 shares as at 31st December, 2008. According to the Enterprise Income Tax Law of the People's Republic of China and the Implementation Regulations for Enterprise Income Tax of the People's Republic of China which took effect on 1st January, 2008, enterprise income tax is payable by non-resident enterprises in respect of income derived from the PRC at an applicable tax rate of 10% and listed issuers will withhold such enterprise income tax on behalf of the non-resident enterprises (including Hong Kong Securities Clearing Company Nominees Limited). Cash dividend payable to H-share non-resident enterprises after the deduction of the said enterprise income tax is RMB0.47 cents for every share.

The distribution of the above dividend for the year is subject to the approval by the shareholders in the forthcoming annual general meeting.

13. 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 RMB53,215,000 (2007: RMB47,107,000) and 2,898,086,091 (2007: 2,898,086,091) shares in issue during the year.

No diluted earnings per share has been presented in 2008 and 2007 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.

14. 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	Leasehold land and building (note) RMB'000	Construction in progress RMB'000	Total RMB'000
Cost								
At 1st January, 2007	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
Additions	8,124	–	52,200	544	169	757	18,301	80,095
Transfers	–	–	4,057	–	–	74,933	(78,990)	–
Disposals	(8,782)	–	(19,536)	(88)	–	–	–	(28,406)
Arising from disposal of subsidiary	(908)	(9)	–	–	–	–	–	(917)
At 31st December, 2008	125,798	20,321	460,756	8,135	589	75,690	12,400	703,689
Depreciation								
At 1st January, 2007	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
Provided for the year	9,724	797	52,327	1,310	233	640	–	65,031
Eliminated on disposals	(8,509)	–	(19,770)	(77)	–	–	–	(28,356)
Arising from disposal of subsidiary	(667)	(8)	–	–	–	–	–	(675)
At 31st December, 2008	117,006	13,203	325,574	4,962	374	640	–	461,759
Carrying values								
At 31st December, 2008	8,792	7,118	135,182	3,173	215	75,050	12,400	241,930
At 31st December, 2007	10,906	7,916	131,018	3,950	279	–	73,089	227,158

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. The leasehold property is situated in the PRC under medium lease term.

As at 31st December, 2008, the Group is in the process of obtaining the property title certificate. The carrying amount of such leasehold land and buildings as at 31st December, 2008 is RMB75,050,000 (2007: RMB71,537,000 which was include in construction in progress).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Computer equipment	$33^1/_3$%
Network equipment	20% or over the remaining period of the relevant contract work, whichever is shorter
Office equipment, furniture and fixtures	20%
Motor vehicles	20%
Leasehold land and building	5%
Leasehold improvements	Over the period of the respective leases

15. INTERESTS IN ASSOCIATES

	2008	2007
	RMB'000	RMB'000
Cost of unlisted investment in associates	**49,638**	49,638
Less: unrealised profit eliminated	**(2,238)**	(2,238)
	47,400	47,400
Share of capital reserve	**5,796**	5,796
Share of post-acquisition loss, net of dividends received	**(28,951)**	(23,448)
	24,245	29,748

Notes to the Financial Statements

For the year ended 31st December, 2008

15. 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 2008	2007	Principal activities
北京數字証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%**	20%	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%**	39.38%	Network game software development and related businesses

Note: These entities are non-wholly owned subsidiaries of BSAM.

Notes to the Financial Statements

For the year ended 31st December, 2008

15. INTERESTS IN ASSOCIATES (continued)

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

	2008 RMB'000	2007 RMB'000
Total assets	118,568	144,594
Total liabilities	(72,972)	(66,592)
Net assets	45,596	78,002
Group's share of net assets of associates	26,483	31,986
Turnover	83,429	62,310
Loss for the year	(8,590)	(4,808)
Group's share of losses of associates for the year	(3,343)	(2,333)
Impairment of goodwill of an associate	–	(867)
Share of losses of associates as shown in the consolidated income statement	(3,343)	(3,200)

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

	2008 RMB'000	2007 RMB'000
Unrecognised share of (loss) profit of an associate for the year	(3,197)	6
Accumulated unrecognised share of loss of an associate	(4,123)	(926)

Notes to the Financial Statements

For the year ended 31st December, 2008

16. AVAILABLE-FOR-SALE INVESTMENTS

	2008 RMB'000	2007 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 the 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 2008	2007	Principal activities
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

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For the year ended 31st December, 2008

17. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**67**	725
Merchandise	**1,734**	402
	1,801	1,127

18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2008 RMB'000	2007 RMB'000
Contract costs incurred to date	**151,263**	195,701
Recognised profits less recognised losses	**78,931**	82,667
	230,194	278,368
Less: Progress billings	**(198,713)**	(248,100)
	31,481	30,268

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For the year ended 31st December, 2008

19. OTHER FINANCIAL ASSETS

(1) Trade and other receivables

	2008 RMB'000	2007 RMB'000
Trade receivables		
– a fellow subsidiary	**1,276**	5,061
– other state-controlled entities and the PRC government	**32,449**	17,052
– third parties	**9,514**	16,168
Sub-total	**43,239**	38,281
Less: Allowance for doubtful debts	**(9,362)**	(15,833)
	33,877	22,448
Less: Non-current portion which shown in non-current assets (note)	**(7,881)**	–
	25,996	22,448
Other receivables, deposits and prepayments	**19,401**	15,723
Trade and other receivables shown in current assets	**45,397**	38,171

The Group generally 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	2008 RMB'000	2007 RMB'000
0 to 60 days (note)	**27,675**	11,315
61 to 90 days	**242**	1,872
91 to 180 days	**791**	8,932
Over 180 days	**5,169**	329
	33,877	22,448

Note: Included in the balance of trade receivables at 31st December 2008 was a trade receivable of approximately RMB7.9 million (2007: Nil) which will be settled by equal annual instalment within 5 years from 1st July, 2009 in accordance with the terms of payment of the contract with a customer. Therefore, the portion that will be settled after one year are shown and included as non-current assets at the balance sheet date. The effective interest rate applied on this receivable is 3.33% per annum.

19. OTHER FINANCIAL ASSETS (continued)

(1) Trade and other receivables (continued)

Movement in the allowance for the doubtful debts

	2008	2007
	RMB'000	RMB'000
Balance at the beginning of the year	**15,833**	11,350
Recognised during the year	**1,828**	4,483
Write off during the year	**(8,299)**	–
Balance at end of the year	**9,362**	15,833

The overdue balances were approximately RMB5,169,000 aged over 180 days as at 31st December, 2008 (2007: RMB329,000 aged over 180 days) 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 rcoverability 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. The credit quality of the trade receivable that are neither past due nor impaired is good.

Included in the allowance for doubtful debts are individually impaired trade receivables which aged over one year with an aggregate balance of RMB9,362,000 (2007: RMB15,833,000). The Group does not hold any collateral over these balances.

(2) Term bank deposits

Term bank deposits carry fixed interest rates which range from 1.71% to 1.98% per annum with maturity periods within three to six months.

(3) Bank balances and cash

Bank balances carry interest at a market rate of 0.36% (2007: 0.72%) per annum.

Notes to the Financial Statements

For the year ended 31st December, 2008

20. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during the current year and prior years:

	Accrued expense RMB'000
At 1st January 2008	–
Credit to income statement for the year	1,537
At 31st December 2008	1,537

21. ENTRUSTED LOAN

On 8th September, 2008, the Company entered into a trust agreement with 中誠信托有限責任公司 (China Credit Trust Co., Ltd.) ("China Credit Trust"), pursuant to which the Company contributed an amount of RMB92 million from its internal resources as the trust property into China Credit Trust and China Credit Trust extended the trust property to 北京巨鵬投資公司 (Beijing Jupeng Investment Company Limited) ("Beijing Jupeng") as the short-term loan under the loan agreement and the asset pledge agreement, which will be fully repayable on 25th July, 2009 and secured by the properties and relevant land use right which are owned by 北京柏裕投資公司 (Beijing Baiyu Investment Company Limited) ("Beijing Baiyu"). According to the trust agreement, if the interest derived from the entrusted loan, after deducting the relevant tax and duties and other relevant expenses, is greater than RMB4 million, China Credit Trust is entitled to obtain the amount of interest payment in excess of that amount of RMB4 million as trust management fee; otherwise, the Company is not obliged to pay China Credit Trust any trust management fee. The Company have received the full interest amount of RMB4 million in advance in 2008. The amount of entrusted loan is carried at amortised cost at an effective rate of 5% per annum.

The management have performed an assessment on the financial capability of Beijing Jupeng and considered that there is no significant risk to recover the loan, and the management has performed an assessment on the estimated market value of the pledged properties and relevant land use right owned by Beijing Baiyu. There is no indication showing that the estimated market value of the pledged properties, which has been revalued by an independent valuer at 31st December, 2008 is lower than the carrying value of the entrusted loan as at 31st December, 2008. Thus, the directors consider that no impairment loss is provided for the entrusted loan.

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For the year ended 31st December, 2008

22. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000
Trade payables		
– a fellow subsidiary	–	20
– third parties	24,202	16,619
	24,202	16,639
Government grants not recognised as income	17,828	19,032
Other payables and accrued expenses	104,716	67,092
Customer deposits	2,041	733
	148,787	103,496

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

Age	2008 RMB'000	2007 RMB'000
0 to 60 days	13,215	13,277
61 to 90 days	1,766	369
91 to 180 days	3,559	92
Over 180 days	5,662	2,901
	24,202	16,639

23. OTHER LOAN

	2008 RMB'000	2007 RMB'000
Carrying amount repayable within one year and shown under current liabilities	9,090	9,090

The loan is granted by the PRC government, denominated in Renminbi, unsecured and bears interest at fixed interest rate is 2.55% (2007: 2.55%) per annum for the year ended 31st December, 2008.

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For the year ended 31st December, 2008

24. SHARE CAPITAL

	Number of shares		Registered,
	Domestic shares	H shares	issued and fully paid
			RMB'000
Balance of share capital of RMB0.10 each at 1st January, 2007, 31st December, 2007 and 31st December, 2008	2,123,588,091	774,498,000	289,809

25. 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, on the same day, 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 6th December, 2001, 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 1.1.2007	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2007	Reclassified during the year (Note)	Lapsed during the year	**Outstanding at 31.12.2008**
Directors	10,149,400	(1,309,750)	(2,483,100)	6,356,550	(1,261,700)	–	**5,094,850**
Supervisors	2,509,450	–	–	2,509,450	–	(1,264,800)	**1,244,650**
Senior management	4,836,620	–	–	4,836,620	1,261,700	(784,920)	**5,313,400**
Senior advisors	2,619,500	1,309,750	–	3,929,250	–	–	**3,929,250**
Advisors	2,808,910	–	–	2,808,910	–	(745,860)	**2,063,050**
Other employees	19,481,795	–	(1,918,125)	17,563,670	–	(758,880)	**16,804,790**
	42,405,675	–	(4,401,225)	38,004,450	–	(3,554,460)	**34,449,990**

The options outstanding at the end of the year have a remaining contractual life of 3 years (2007: 4 years). None of the pre-IPO share options has been exercised during the year.

Note: Dr. Wu Bo resigned as the director on 2nd June, 2008. The share options which he holds were reclassified from the category of directors to senior management.

25. 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 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, 2008

25. 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 1.1.2007	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2007	Reclassified during the year (Note)	Lapsed during the year	**Outstanding at 31.12.2008**
Directors	12,962,000	(2,700,000)	(2,932,000)	7,330,000	(1,466,000)	–	**5,864,000**
Supervisors	2,932,000	–	–	2,932,000	–	(1,466,000)	**1,466,000**
Senior management	9,166,000	–	(1,466,000)	7,700,000	1,466,000	(1,925,000)	**7,241,000**
Senior advisors	11,264,000	2,700,000	–	13,964,000	–	–	**13,964,000**
Advisors	2,384,000	–	–	2,384,000	–	(459,000)	**1,925,000**
Other employees	20,125,000	–	(1,812,000)	18,313,000	–	(1,305,000)	**17,008,000**
	58,833,000	–	(6,210,000)	52,623,000	–	(5,155,000)	**47,468,000**

Note: Dr. Wu Bo resigned as the director on 2nd June, 2008. The share options which he holds were reclassified from the category of directors to senior management.

The options outstanding at the end of the year have a remaining contractual life of 6 years (2007: 7 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, 2008

26. RESERVES

As stipulated by the relevant laws and regulations in the PRC, the Company and its PRC subsidiaries are required to set aside 10% of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of the relevant entities' registered capital).

According to the their 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 entities' 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.

Notes to the Financial Statements

For the year ended 31st December, 2008

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loan and receivables	**577,467**	516,574
Available-for-sale financial assets	**1,350**	1,350
Financial liabilities		
Amortised cost:		
Trade and other payables	**128,918**	83,731
Amounts due to associates	**644**	643
Other loan	**9,090**	9,090
	138,652	93,464

Notes to the Financial Statements

For the year ended 31st December, 2008

27. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and polices

The Group's major financial instruments include term bank deposits, bank balances and cash, trade and other receivables, amount due from customers for contract works, entrusted loan, amounts due from/to associates, trade payables and other loan. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market 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 bank deposits, entrusted loan and other loan (see notes 19, 21 and 23). The Group's cash flow interest rate risk related primarily to its bank balances (see note 19). 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 10 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 rate had been increased/decreased by 10 basis points and all other variables were held constant, the Group's profit would increase/decrease by approximately RMB411,000 for the year ended 31st December, 2008 (2007: RMB456,500).

Other price risk

The Group is exposed to equity price risk through its investments in 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, 2008

27. 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 contact works, entrusted loan, bank balances and bank 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 perform 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 respect of the concentration of credit risk on entrusted loan, which is advanced to a single party, the management has performed evaluation on the return and quality of loan before entering into the loan arrangement and performed periodic recoverability of the entrusted loan. 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 on trade receivable, with exposure spread over a large number of counterparties and customers.

The Group exposed to concentration of credit risk on bank balance which were deposited with several banks only. However the credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

Liquidity risk

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 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.

27. FINANCIAL INSTRUMENTS (continued)

Other price risk (continued)

Liquidity tables

	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 31.12.2008 RMB'000
At 31.12.2008						
Trade and other payables	–	20,247	48,965	79,575	148,787	148,787
Amounts due to associates	–	644	–	–	644	644
Other loans	2.55	–	–	9,322	9,322	9,090
		20,891	48,965	88,897	158,753	158,521

	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	38,756	102,763	102,763
Amounts due to associates	–	643	–	–	643	643
Other loans	2.55	19	39	9,264	9,322	9,090
		57,179	7,529	48,020	112,728	112,496

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.

Notes to the Financial Statements

For the year ended 31st December, 2008

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 21, and equity attributable to equity holders of the Group, comprising issued share capital, reserves and accumulated profits.

29. 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:

	2008	2007
	RMB'000	RMB'000
Land and buildings		
Within one year	**5,576**	7,241
In the second to fifth year inclusive	**2,403**	6,789
	7,979	14,030

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

30. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**11,179**	2,875

Notes to the Financial Statements

For the year ended 31st December, 2008

31. 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.

The total expense recognised in the consolidated income statement of RMB5,375,000 (2007: RMB4,126,000) represents contributions paid or payable under the retirement benefit scheme.

32. RELATED PARTY DISCLOSURES

(i) Transactions with holding company and fellow subsidiaries

Related party	**Nature of transactions**	Notes	**2008** **RMB'000**	2007 RMB'000
Holding company				
China United network Communications Corporation Limited (formerly known as CNC Beijing Communication Corporation) ("CNC Beijing")	Dedicated circuit leasing services paid	(a)	**7,794**	6,739
	Telephone related services paid	(b)	**549**	879
Fellow subsidiaries				
Capnet Company Limited ("Capnet")	Income received for providing the network system and related maintenance services	(c)	**8,040**	7,026
Beijing IC Design Park Co., Ltd. ("BIDP")	Rental paid for office premises	(d)	**4,060**	4,962

Notes to the Financial Statements

For the year ended 31st December, 2008

32. 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 北京市電信公司營業局 (CNC Beijing Communication Business Bureau) ("BB-BTC"), a department under CNC Beijing Communication Corporation in which BB-BTC has agreed, inter alia, to lease to the Group local dedicated circuits. On 20th March, 2008, the Company and BB-BTC entered into a renewal agreement to extend the lease term to 31st December, 2009. Upon the completion of corporate restructuring of China Unicom Limited and CNC Beijing Communication Corporation in October 2008, the name of holding company has changed to China United Network Communications Corporation Limited.

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

(c) On 20th December, 2006, the Company and Capnet entered into a comprehensive services 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 RMB8,040,000 (2007: RMB7,026,000) was recognised for the year.

(d) On 31st March, 2008, the Company entered into a new lease agreement with BIDP, pursuant to which the Company leases from BIDP the office premises at an annual rent of approximately RMB3,971,000 for the period from 1st April, 2008 to 31st March, 2009 and approximately RMB4,060,000 (2007: RMB4,962,000) was recognised for the year.

(ii) Transactions with associates

Associates	**Nature of transactions**	**2008** **RMB'000**	2007 RMB'000
Beijing Certificate of Authority Center Company Limited	Software development and providing related technical services to the Group	**795**	665
Beijing Community Service Company Limited	Software development and providing related technical services to the Group	**291**	345

Notes to the Financial Statements

For the year ended 31st December, 2008

32. RELATED PARTY DISCLOSURES (continued)

(iii) 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 RMB321,897,000 (2007: RMB268,527,000) 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.

Other loan of RMB9,090,000 is borrowed from the PRC government, unsecured and bears interest at annual interest rate of 2.55%, and the Group has incurred interest expense approximately RMB255,000 (2007: RMB213,000) in the year.

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 RMB64,620,000 (2007: RMB51,691,000) as at 31st December, 2008, 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.

(iv) Amount due from associates

The amounts are unsecured, non-interest bearing and are repayable on demand.

(v) Amount due to associates

The amounts are unsecured, non-interest bearing and are repayable on demand.

Notes to the Financial Statements

For the year ended 31st December, 2008

32. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel

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

	2008	2007
	RMB'000	RMB'000
Short-term benefits	**5,473**	4,565
Post-employment benefits	**79**	82
	5,552	4,647

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

33. 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 2008	2007	Principal activities
Directly held						
Capinfo (Hong Kong) Company Limited	Private limited company	Hong Kong	HK$2	**100%**	100%	Investment holding
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 Tecnology Company Limited)	Private limited company	PRC	RMB2,000,000	**60%**	60%	e-Commerce application and network developments

Notes to the Financial Statements

For the year ended 31st December, 2008

33. 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 2008	2007	Principal activities
Directly held (continued)						
首都信息科技發展有限公司 (Capinfo Technology Development Co., Ltd.) and software and investment holding	Private limited company	PRC	RMB50,000,000	**100%**	100%	Developing software; providing technical service; sale of hardware
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%**	85%	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
遼寧眾信同行軟件開發有限公司 (Capinfo Soft Co.,Ltd.)	Private limited company	PRC	RMB5,000,000	**61%**	61%	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%**	80%	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.) technical services	Private limited company	PRC	RMB1,000,000	**60%**	60%	Developing, sale and implementing software and providing related

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

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, 19 June 2009 at 9:30 a.m. for the following purposes:

As ordinary resolutions

1. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries and the directors' and independent auditors' reports for the year ended 31 December 2008;

2. To consider and approve the supervisors' report for the year 2008;

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

4. To consider and approve the distribution of the final dividend for the year ended 31 December 2008;

5. To consider and approve the re-election and renewal of directors and supervisors;

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

7. To consider and approve any motion proposed by any shareholders holding 5% or more of the shares with voting rights at such meeting, if any.

By order of the Board
CAPINFO COMPANY LIMITED*
Dr. Li Minji
Chairman

Beijing, the People's Republic of China
23 March 2009

* *For identification purpose only*

Notice of Annual General Meeting

Notes:

1. The register of shareholders of the Company will be closed from 18 May 2009 (Monday) to 18 June 2009 (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 on 15 May 2009 (Friday) 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 1806-07, 18/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 1806-07, 18/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 29 May 2009 (Friday). The reply slip may be delivered by hand or by post.