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)

Annual Report 2009

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 Haidian District Beijing 100036 PRC
Principal place of business in Hong Kong	8th Floor, Kailey Tower 16 Stanley Street Central Hong Kong, PRC
Principal place of business in the PRC	12th Floor Quantum Silver Plaza No. 23 Zhi Chun Road Haidian District Beijing 100191 PRC
GEM Stock Code	8157
Website address	www.capinfo.com.cn
Compliance Officer	Dr. WANG Xu (汪旭博士)
Company Secretary, Qualified Accountant	Mr. Eric YU Tak Shing, AHKSA, CPA Australia (于德誠先生)

Corporate Information

Audit Committee	Dr. WANG Huacheng (Chairman) (王化成博士) Mr. CHEN Jing (陳靜先生) Mr. GONG Zhiqiang (宮志强先生)
Remuneration Committee	Mr. CHEN Jing (Chairman) (陳靜先生) Ms. SUN Jing (孫婧女士) Mr. GONG Zhiqiang (宮志强先生)
Authorised Representatives	Dr. WANG Xu (汪旭博士) Mr. 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, PRC
Principal Bankers	Bank of China 8 Ya Bao Road Chaoyang District Beijing, PRC Guangdong Development Bank 49 Zhichun Road Haidian District Beijing, PRC

Chairman's Statement

Against the backdrop of the global financial crisis, the Company reaped impressive business results with its cutting-edge technologies and advantages in resources during the year, which is the best footnote to its proven business strength.

2009 saw ongoing breakthroughs and innovations in the Company's principal businesses. The Beijing Medical Insurance Information System had both better satisfied the needs under the new medical insurance policy and fully promoted the integrated services for the application of the Beijing Social Security Cards. Upon successful completion of the upgrade and renovation project for Beijing's e-Government Network, the security task for the celebrations of the 60th anniversary of the founding of China was completed smoothly. System upgrade and website revision for the Beijing e-Community Information System were completed during its smooth operation, and a software was developed for the Community Service Site Information System, which lays a foundation for extending the Community Public Service Platform and the Street Digitalisation Office Information System to the community service site. The "Beijing-China" business had remarkably completed its operation and maintenance services and smoothly accomplished its security tasks for some major events such as the NPC and CPPCC sessions and the National Day celebrations.

Progress was made in exploring the new IT service market. After the IT services had become more steady in the Beijing market, the Company aggressively extended its business arm of IT services to the State's ministries and commissions, enterprises under the central government and even throughout the country. Currently, initial progress was made through successful business promotions in some cities in Guangdong Province, Guangxi Province, Sichuan Province, Jiangsu Province, Hebei Province and Liaoning Province, offering inexhaustible business opportunities in the future. Furthermore, the Company's provision of IT services tailored to meet customers' needs were well-received by most of its customers. This has laid a good foundation for setting a new business direction of the Company in the future.

Tremendous efforts were committed to corporate management innovation and reform in addition to the focus on business management. Through management upgrades such as the strengthening of the management of associated companies, formulation of strategies and optimisation of the internal control system, the standards had been raised substantially for the Company's strategic management and the Group's control, enhancing the Company's competitive edge.

Looking forward to 2010, Capinfo Company will turn a brand new page in its history, which will be composed by all Capinfo staff. It is our responsibility to create a greater value for our shareholders; it is our vision to build Capinfo into an industrial leader. We believe we can certainly compose a more splendid chapter for Capinfo Company with the joint endeavours of all our staff.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to the shareholders of Capinfo and people from various sectors for their persistent care and support to the development of Capinfo Company, and to all the dedicated frontline staff.

Dr. Li Minji
Chairman

Beijing, the PRC
22 March 2010

Management Discussion and Analysis

Financial Review

The board of Directors (the "Board") of the Company announces that, for the year ended 31 December 2009, the Company and its subsidiaries (collectively the "Group") recorded an audited turnover of approximately RMB363.1 million, representing an increase of approximately 7% over that of last year, and a gross profit margin of 33%, as compared with 34% for last year. The Group has attained an audited profit attributable to equity holders of the parent of approximately RMB65.93 million for the year under review, representing an increase of approximately 24% 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 2009, the Group had unsecured borrowings of RMB8.2 million, bearing interests at an average interest rate of 2.55%. The Group had entrusted loans of RMB99 million, bearing interests at an annual interest rate of 4.3%, which will be repaid on 24 September 2010. Cash and bank deposits of RMB490 million of the Group as at 31 December 2009 were mainly derived from shareholders' contribution and working capital generated from operations.

As at 31 December 2009, the Group had no assets pledged and had no significant contingent liabilities.

As at 31 December 2009, the Group had capital commitment of approximately RMB24.9 million.

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

Management Discussion and Analysis

Business Review

Foundation Businesses

- The Social Security Card System and the Medical Insurance System

  Breakthrough progress was made in the social security card and medical insurance businesses during the year, both delivering encouraging economic benefits and building a good brand image for the Company. As required by the Work Report of the Beijing Municipal Government, social security cards were issued and used in the medical insurance sector for the real-time settlement of expenses covered by medical insurance in order to intensify the healthcare system reform of Beijing and fully rely on the achievements already made in the Medical Insurance Information System. To ensure the smooth implementation of this "well-being Project", the Company upgraded the existing Medical Insurance System, and improved its business support capability and processing speed through continuous research and development of new systems to meet the needs of users at large. Currently, the pilot scheme for the issuance of social security cards in Shijingshan District and Xicheng District of Beijing has been completed smoothly. A total of approximately 1 million cards were issued during the year. The smooth promotion of the social security card project will drive a huge amount of new needs for information technology development at hospitals, generating more market opportunities for the Company.

- The e-Government Network

  The services of the e-Government Network reached a new high level following a successful upgrade to the network. To cope with the needs for the development of e-government services in future, the Company has persistently enhanced the security and reliability of the e-Government Network, as well as the carrying capacity for key business systems such as the Emergency Command Video Conferencing. By upgrading the e-Government Network under the BOT mode, the Company consolidated its leading position in Beijing's e-government sector with its technology advantages and first-class services. During the year, the e-Government Network's network security task for the celebrations of the 60th anniversary of the founding of China was accomplished well, and the commemorative plaque of "Military Parade in the Capital for the Celebrations of the 60th Anniversary of the Founding of New China" (「新中國成立60周年國慶首都閱兵」) was awarded by the Joint Command for Military Parade, and the medal of "Excellent Enterprise for Capital's e-Government Network Security for the 60th Anniversary of the Founding of the People's Republic of China" (「中華人民共和國成立60周年首都政務網絡保障優秀單位」) by the Beijing e-Government Network Administration Centre. This is anther successful security mission in IT services completed by the Company following the 29th Olympic Games and the Beijing Paralympic Games 2008.

Management Discussion and Analysis

- The Community Service Information System

  The e-community services proceeded steadily with an overall improvement in operation and maintenance standards. During the year, the Company launched an extensive upgrade and revision to the Community Service Information System and website (www.96156.gov.cn). The integration of information on various service resources led to an overall improvement in the capability of the community service information platform to serve the public. In 2009, the Company embarked on the research and development of "My Community Space" that closely addresses community residents, a cyber homeland for community residents and agencies, which serves as a more convenient platform for exchanges among community residents. Meanwhile, the Company has also developed the Community Service Station Information System, a software product with vast potential for broad applications in the future community service sector, which is expected to substantially improve the standards for community information services.

- Beijing-China

  "Beijing-China" (www.beijing.gov.cn) is a portal website for the Beijing Municipal Government, and has been named the "No. 1 Nationwide Government Portal Website" for three consecutive years for its high speed, stable, secure and convenient network services, sufficiently demonstrating the Company's leading position in operation and maintenance services for network technologies. During the year, "Beijing-China" successfully ensured network operation security for the major events and during festival holidays such as the NPC and CPPCC sessions in 2009 and the celebrations of the 60th anniversary of the founding of China. Given the number of "Beijing-China" users is on the increase, the target for future development will be to improve its international service standards.

Business Development

Based on its business development objective of "securing a foothold in Beijing locally with a nationwide perspective", the Company aggressively opened up non-local IT service business while consolidating and developing the market in Beijing. Through technological innovation and optimization of corporate structure, the Company improved its service quality and expanded its market share in Beijing and the State's ministries and commissions and even throughout the country. The Company is progressively moving towards the provision of high value-added IT services and the high-end service sectors.

Management Discussion and Analysis

During the year, the Ronease Multilingual Information Processing Platform developed by the Company was accredited as one of the second batches of proprietary innovative products in Beijing, and the Company was appointed as the official information technology service provider for the 2009 World Snooker China Open, both in recognition of the Company's IT services and technologies.

Corporate Management

Time and efforts were devoted to strengthening corporate management during the year. Quality and technology management was reinforced under the ISO9001 system, and the ISO20000 certification scheme was launched with an aim to uplift the Company's overall competitive edge under international IT service management standards. Furthermore, the Company persistently enhanced its budget management and risk control abilities, improved its system setups and performance assessment system, and focused on bringing in and fostering qualified staff to strive to build up a team with core competitiveness.

In 2009, the Company received a number of awards such as the "First Prize for the 24th Beijing Modern Corporate Management Innovative Achievements" (「第二十四屆北京市企業管理現代化創新成果一等獎」) and the title of "Enterprise with Outstanding Contributions to the 20 years' Innovation and Development of Zhongguancun" (「中關村20年創新和發展做出突出貢獻企業」), and was rated as a "New High-Tech Enterprise in Zhongguancun" (「中關村高新技術企業」) and an "Innovative Enterprise in Haidian Park" (「海淀園創新企業」).

Future Prospects

In the context of the global economic recovery in 2010, the Company will seize every opportunity, seek profit growth points for its principal businesses and explore new business directions on an ongoing basis, expedite its development to attain healthy, prompt and sustainable development, making unremitting efforts for building itself into an industrial leader.

Employees

As at 31 December 2009, the Group had 897 employees (2008: 755 employees). The payable staff cost was approximately RMB107.37 million (2008: RMB99.52 million).

Directors, Supervisors and Senior Management

Executive Directors

Dr. WANG Xu (汪旭博士), aged 41, was appointed as executive Director of the Group since July 2001 and is currently the Chief Executive of the Group. He was responsible for the administration and execution of the overall business strategies of the Group. Dr. Wang received his doctorate degree in management from the department of technical economics at School of Economics and Management of Tsinghua University in the PRC in 1998 and joined the Group in the same year.

Non-executive Directors

Dr. LI Minji (李民吉博士), aged 45, is currently the chairman of the Group and executive vice president of the Beijing State-owned Assets Management Co., Ltd. Dr. Li joined the Group in September 2004 as non-executive Director of the Group, and was appointed as chairman of the Group in July 2007. Dr. 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.

Ms. SUN Jing (孫婧女士), aged 37, was appointed as non-executive Director of the Group since June 2009 and is currently the general manager of the financial assets management department of Beijing State-owned Assets Management Co., Ltd. Ms. Sun graduated from Tsinghua University and received her master's degree in business administration in 2001. Ms. Sun had worked in China International Cultural Exchange Centre, Beijing XinHuaxin Business Risk Management Ltd. and Beijing Centergate Technologies (Holding) Co., Ltd. prior to joining the Group.

Ms. LI Zhi (李治女士), aged 33, was appointed as non-executive Director of the Group since June 2009 and is currently a project manager of the social projects development department of the Beijing State-owned Assets Management Co., Ltd. Ms. Li graduated from the China University of Petroleum with a master's degree in business management in 2003. Ms. Li worked for CITIC Media Group prior to joining the Group.

Mr. PAN Jiaren (潘家任先生), aged 70, was appointed as non-executive Director of the Group 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's 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. CAO Jun (曹軍先生), aged 39, was appointed as non-executive Director of the Group since January 2009. He is currently the deputy director of the business management department of Beijing All Media and Culture Group. Mr. Cao graduated from China University of Political Science & Law in 1992 with a bachelor's degree in Laws. He had worked in the Business School of Beijing, Beijing Municipal Bureau of Radio and Television and Beijing BAMC Entertainment Group prior to joining the Group.

Mr. QI Qigong (戚其功先生), aged 49, was appointed as non-executive Director of the Group since July 2001 and is currently the vice-general manager of Beijing branch of China United Network Communications Corporation Limited. Mr. Qi graduated from Hong Kong University of Science and Technology with a master's 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 56, was appointed as non-executive Director of the Group since June 2007 and is currently the director of China Financial Computerization Corporation. Ms. Lu obtained a master's degree in business and administration at Tianjin University in 1999. Ms. Lu had worked in the Chaoyang District Agency of Beijing of Industrial and Commercial Bank of China and the Science Division of the People's Bank of China where she was responsible for application of the information system of the bank, and the management of research and development of national key technologies under the financial system prior to joining the Group.

Independent non-executive Directors

Mr. CHEN Jing (陳靜先生), aged 66, was appointed as independent non-executive Director of the Group since October 2006 and is currently a member of the Advisory Committee for State Informatization, an expert of the expert advisory group for Beijing Municipal Government. Mr. Chen also 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.

Directors, Supervisors and Senior Management

Dr. WANG Huacheng (王化成博士), aged 47, was appointed as independent non-executive Director of the Group since June 2009 and is currently a professor of the School of Business of the People's University of China. He is also the general secretary of National Master of Professional Accounting Education Instruction Committee (全國會計專業碩士學位教育指導委員會), the vice-general secretary of China Accounting Society, a councilor of Chinese Costing Research Institute, an executive councilor of China Chief Accountant Association and an adjunct professor at universities including China University of Mining and Technology. Dr. Wang also serves as an independent director of Huatai Securities Co. Ltd. and Yinzuo Company Limited (銀座股份有限公司). Dr. Wang received his doctorate degree in accounting from the People's University of China in 1998. Dr. Wang had worked in the People's University of China prior to joining the Group and has extensive teaching and managing experience in accounting and management.

Mr. GONG Zhiqiang (宮志強先生), aged 38, was appointed as independent non-executive Director of the Group since June 2009 and is currently a managing partner of Beijing Sino Pro. Law Firm. Mr. Gong graduated from Heibei University with a master's degree in laws in 1995. Mr. Gong had worked in the Intermediate People's Court of Handan Municipality, Heibei Province and Beijing Hylands Law Firm prior to joining the Group.

Company Secretary and Qualified Accountant

Mr. Eric YU Tak Shing (于德誠先生), aged 41, was appointed as Company Secretary and Qualified Accountant of the Group since March 2008. Mr. Yu graduated from University of Wollongong, Australia in 1993 and received a bachelor's degree in business. He is a member of CPA, Australia and Hong Kong Institute of Certified Public Accountants (AHKSA) . Prior to joining the Group, 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 59, was appointed as chairman of the board of Supervisors since July 2001 and is currently a director and vice president of the Beijing State-owned Assets Management Co., Ltd. Ms. Liu graduated in 1993 from the Shanghai Finance University with a master's degree. Ms. Liu had served as vice-head of Jiangxi Pharmaceutical Factory, head of Jiangxi Medical Equipment Factory, vice-chairman 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 54, was appointed as Supervisor of the Group since June 2008 and is currently the Senior Business Manager of the Audit Department of the Beijing State-owned Assets Management Co., Ltd. Ms. Gao graduated from No. 2 Branch, People's 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 37, a Supervisor of the Group elected by staff as staff representative since May 2008 and is currently the General Manager of the Investment Management Center of the Group. Ms. Xu graduated from the School of Management of Tianjin University in 1998 with a master's degree majoring in Technology Economics and joined the Group in the same year. Ms. Xu has served as vice-General Manager of Capital Operation Center and Strategic Management Department.

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 operating director of the Group, mainly responsible for investing and financing as well as the management of "Beijing-China" and multilingual and e-commerce business, etc. He is also the executive officer of the Contemporary Financiers (當代金融家), the executive officer and senior expert of China Electronic Commerce Association 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 Zhong Guan Cun Technology Development Holding Company (中關村科技發展股份公司) .

Dr. WU Bo (吳波博士), aged 53, joined the Group in August 2000, is the chief operating director of the Group, mainly responsible for the management of electronic community and e-government services. Dr. Wu graduated from the Faculty of Optical Engineering of Huazhong University of Science and Technology in 1984 with a master's degree in science. He participated in the Doctor Student Training Program co-organized by the Bonn University in Germany and the Dalian University of Science and Technology in 1991 and received a doctorate degree. 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.

Ms. LI Wei (李薇女士), aged 51, joined the Group in July 2004, is the chief operating director of the Group and managing director of Beijing Culture & Sports Technology Co., Ltd., and is responsible for the management of the Group's 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

Directors, Supervisors and Senior Management

Computer Science of China University of Geosciences, the chief representative of the Beijing Office of Taiwan Mei Ao Technology Co., Ltd. (台灣美奧科技股份有限公司), general sales manager of China holding corporation of Asia branch of Fourth-Shift Company of the United States (美國四班公司), general manager of the Wuhan branch of the Central China division of HP, and an adjunct professor of the School of Business of Wuhan University.

Mr. ZHENG Zhiguang (鄭志廣先生), aged 55, joined the Group in February 2000, is currently the chief operating director of the Group 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's degree in computer application. Prior to joining the Group, Mr. Zheng had served as head of the automatic software project of Shoudu Iron and steel Company (首都鋼鐵公司), general manager of system integration department of Beijing Software Company (北京軟件公司), the assistant 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 37, joined the Group in June 1999, is currently the chief operating director of the Group. Mr. Yu graduated from Tsinghua University in 1999 with a master's degree majoring in Materials Processing Engineering and joined the Group in the same year. He is responsible for the management of network technology services centre, network operation centre, quality technology management, housing pension service and Capinfo Call Center.

Mr. AI Jianjing (艾建京先生), aged 56, joined the Group in April 2001, is currently the chief engineer of the Group mainly 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 vice-general manager and engineer of Sitong E-Commerce Technology Co., Ltd. (四通電子商務技術有限公司), chief engineer of the Chinese Medicine Website (中國中醫藥網) and the vice-general manager and chief engineer of CAST Information System Technology Co., Ltd. (CAST信息系統技術有限公司).

Mr. LU Shouqun (陸首群先生), aged 73, founded the Group in January 1998. He was appointed as executive Director and president of the Group in the same year. In July 2001, Mr. Lu resigned from the positions 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 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.

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 2009.

Board of Directors and Board Meeting

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

The Board of Directors held 5 board meetings during the year under review.

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

Directors	**Attendance**
Executive Directors	
Dr. Wang Xu *(Chief Executive)*	5/5
Non-executive Directors	
Dr. Li Minji	5/5
Mr. Pan Jiaren	5/5
Mr. Qi Qigong	5/5
Ms. Lu Xiaobing	5/5
Mr. Cao Jun (appointed on 15 January 2009)	5/5
Ms. Sun Jing (appointed on 19 June 2009)	3/3
Ms. Li Zhi (appointed on 19 June 2009)	3/3
Ms. Zhang Yan (resigned on 19 June 2009 upon the expiry of her term)	3/3
Mr. Xu Zhe (resigned on 19 June 2009 upon the expiry of his term)	3/3
Dr. Xia Peng (resigned on 15 January 2009)	0/0

Corporate Governance Report

	Attendance
Independent Non-executive Directors	
Mr. Chen Jing	5/5
Dr. Wang Huacheng (appointed on 19 June 2009)	3/3
Mr. Gong Zhiqiang (appointed on 19 June 2009)	3/3
Mr. Ye Lu (resigned on 19 June 2009 upon the expiry of his term)	2/2
Mr. Liu Dongdong (resigned on 19 June 2009 upon the expiry of his term)	2/2

The Board of Directors, which currently comprises eleven Directors, is entrusted with the overall responsibility for promoting the steady business development of the Company by supervising the company's business affairs. Apart from its statutory responsibilities, the Board of Directors is also responsible for approving the Group's strategic plan, annual budget, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, manages principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks.

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

Chairman and Chief Executive

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

Corporate Governance Report

Terms of Appointment of Non-executive Directors

The term of the existing appointment of all the non-executive Directors (including the independent non-executive Directors) of the Company commenced on 19 June 2009. All of their existing appointments will expire on 18 June 2012 and will be continued thereafter subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

Remuneration of Directors

The Company established a remuneration committee in March 2003. The chairman of the committee is Mr. Chen Jing and other members include Ms. Sun Jing and Mr. Gong Zhiqiang. Ms. Sun Jing is the non-executive Director of the Board while the other two 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) the determination of 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.

Two meetings were held during the year under review to discuss the remuneration packages of executive Directors and senior management of the Company. The existing member of the remuneration committee, Mr. Chen Jing, and the ex-members of the committee, namely 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) to identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' meetings in relation to appointment and re-appointment of Directors 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 control system of the Group. The audit committee comprises three members, Dr. Wang Huacheng, Mr. Chen Jing and Mr. Gong Zhiqiang. All of them are independent non-executive Directors. The chairman of the audit committee is Dr. Wang Huacheng.

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	4/4
Dr. Wang Huacheng (appointed on 3 July 2009)	2/2
Mr. Gong Zhiqiang (appointed on 3 July 2009)	2/2
Mr. Ye Lu (resigned on 19 June 2009)	2/2
Mr. Liu Dongdong (resigned on 19 June 2009)	2/2

All of the Group's unaudited quarterly and interim results during the year under review and audited results for the year ended 31 December 2009 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 has been made.

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 meetings regularly to discuss financial, operational and risk management control.

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 27 of the annual report.

Auditors' Remuneration and Re-appointment

During the year under review, the Company paid to the external auditor of the Company, Deloitte Touche Tohmatsu, approximately RMB1.05 million and RMB0.45 million 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.

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

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

Principal Activities

The Group is an information technologies and services supplier. It participated in the construction, operation and maintenance of large-scale information application projects in Beijing and other regions across the country, and has established a widespread and exclusive IT service network.

The principal activities of the Company's subsidiaries are set out in note 36 to the financial statements.

Results

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 29 of the annual report.

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2009.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

Property, Plant and Equipment

During the year, the Group incurred an aggregate of approximately RMB71.326 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 15 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)*

The executive Directors of the Company 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.

Directors' Report

Non-executive directors:

Dr. Li Minji
Mr. Pan Jiaren
Mr. Qi Qigong
Ms. Lu Xiaobing
Mr. Cao Jun (appointed on 15 January 2009)
Ms. Sun Jing (appointed on 19 June 2009)
Ms. Li Zhi (appointed on 19 June 2009)
Dr. Xia Peng (resigned on 15 January 2009)

Independent non-executive directors:

Mr. Chen Jing
Dr. Wang Huacheng (appointed on 19 June 2009)
Mr. Gong Zhiqiang (appointed on 19 June 2009)
Mr. Ye Lu (resigned on 19 June 2009 upon the expiry of his term)
Mr. Liu Dongdong (resigned on 19 June 2009 upon the expiry of his term)

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
Ms. Xu Xiangyan

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, Dr. Xia Peng resigned on 15 January 2009 as non-executive Director. On 19 June 2009, Ms. Zhang Yan resigned as executive Director upon the expiry of her term, Mr. Xu Zhe resigned as non-executive Director upon the expiry of his term, Mr. Ye Lu and Mr. Liu Dongdong resigned as independent non-executive Directors upon the expiry of their terms, whereas other directors and supervisors were re-appointed for another term.

Directors' Report

Save as disclosed above, none of the directors and supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

a. *Directors and Chief Executive of the Company*

Save as disclosed below, as of 31 December 2009, 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 2009			
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%
Mr. Pan Jiaren	1,244,650	1,466,000	2,710,650	0.35%
Mr. Qi Qigong	1,244,650	1,466,000	2,710,650	0.35%
	3,786,650	4,398,000	8,184,650	1.06%

Note: Ms. Zhang Yan resigned on 19 June 2009 as the executive Director of the Company upon the expiry of her term.

Directors' Report

All of the above-mentioned share options (the "Pre-IPO Options") granted under the pre-IPO share option plan of the Company (the "Pre-IPO Share Option Plan") were granted on 6 December 2001 at RMB1 per grant with an exercise price of HK$0.48 per H Share. All these share options are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to the terms and conditions of the Pre-IPO Share Option Plan, restrictions imposed by the relevant PRC laws and regulations and any conditions of the grant as stipulated by the Board of Directors:

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

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

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

Directors' Report

b. *Substantial shareholders of the Company and other persons (other than Directors or chief 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 2009:

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 2009:

Name	Equity interests held in members of the Group (other than the Company)	Nature of interests	Approximate percentage
Dongguan City Shilongzhen Industrial Company (東莞市石龍鎮工業總公司)	Dongguan Longxin Digital Technology Company Limited (東莞市龍信數碼科技有限公司)	Beneficial owner	40%

Directors' Report

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

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

COMPETING INTERESTS

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

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 35(i) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 35(i) to the financial statements. In their opinion, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) within the relevant cap amounts as agreed by the Stock Exchange or approved by the Company's shareholders.

Directors' Report

The board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of Directors. The independent non-executive Directors have reviewed and confirmed the continuing connected transactions and the report of the auditors that in their opinion:

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

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 80.81% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 67.39% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers represented approximately 65.15% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 25.13% 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 of the Company , 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.

By order of the Board

Dr. Li Minji
Chairman

Beijing, the PRC
22 March 2010

Supervisors' Report

In 2009, the supervisory committee of the Company (the "Supervisory Committee") was in strict compliance with the relevant laws and regulations such as the Company Law and the relevant requirements of the Articles of Association and the Rules of Procedures of the Supervisory Committee of the Company. With a view to protecting the interests of the Company and all shareholders as a whole, the Supervisory Committee conducted a comprehensive supervision of the Company's decision-making procedures, its operation, management and financial position as well as the performance of duties by the Directors and the senior management in accordance with the laws and regulations, which has positive impact on the regulation of the Company's operation and development.

During the year, the Supervisory Committee held six meetings and duly reviewed the quarterly, interim and annual financial statements of the Company. The Supervisory Committee is of the opinion that the Company has an up-to-standard financial management system in place and a sound financial position and that all financial activities of the Company were conducted in strict accordance with the Corporate Accounting Standards, the Corporate Accounting System and the financial management system of the Company. The 2009 financial report of the Company truly and fully reflects its financial position and results of operation.

During the period under review, the members of the Supervisory Committee were present at all meetings of the board of Directors in 2009 and exercised an effective supervision of the rules of procedures of the Board, the Board resolutions and the implementation of the same. The Supervisory Committee also monitored all aspects of the Board's implementation of the resolutions passed at general meetings. The Supervisory Committee is of the view that the Company has a complete internal control system in place, and the decision-making procedures and the decisions made thereunder are in compliance with the scientific and legal principles, thereby effectively mitigating the operational and financial risks. During their terms of office, the Company's Directors, presidents and other senior management staff have discharged their duties diligently, duly implemented all resolutions of the Board and protected the interests of the Company. They also achieved sound operating results and accomplished all targets of operation set by the Board at the beginning of the year. There is no violation of laws or regulations or prejudice of the interests of the Company and the shareholders during the operation.

In 2010, the fourth session of the Supervisory Committee of the Company will continue to discharge its duties diligently in strict compliance with the relevant laws and regulations of the PRC and the place of listing as well as the Company's internal regulatory system with a view to promoting the lawful and continuous operation of the Company.

The Supervisory Committee would like to express its gratitude 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
22 March 2010

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 29 to 94, which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated statements of comprehensive income, changes in equity and consolidated statement of cash flows of the Group 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, in accordance with our agreed terms of engagement, 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, 2009 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

22nd March, 2010

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Turnover	5	**363,125**	339,499
Cost of sales		**(243,610)**	(225,357)
Gross profit		**119,515**	114,142
Other income		**22,220**	16,456
Gain on disposal of a subsidiary	7	**1,929**	1,777
Gain on disposal of an associate	8	**16,000**	–
Fair value gain on investments held for trading		**1,142**	3,447
Research and development costs		**(18,658)**	(16,486)
Marketing and promotional expenses		**(19,103)**	(15,308)
Administrative expenses		**(49,452)**	(41,824)
Finance cost		**(255)**	(255)
Impairment loss recognised in respect of interest in an associate		**(513)**	–
Share of results of associates		**865**	(3,344)
Profit before tax	9	**73,690**	58,605
Income tax expense	12	**(7,575)**	(6,090)
Profit and total comprehensive income for the year		**66,115**	52,515
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**65,934**	53,215
Minority interests		**181**	(700)
		66,115	52,515
Earnings per share – Basic and diluted	14	**RMB2.28 cents**	RMB1.84 cents

Consolidated Statement of Financial Position

At 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**153,895**	241,930
Investment property	16	**71,265**	–
Deposits paid on acquisition of property, plant and equipment		**1,355**	5,098
Interests in associates	17	**22,087**	24,245
Available-for-sale investments	18	**1,350**	1,350
Trade receivables – non-current	21	**5,794**	7,881
Deferred tax assets	19	**1,306**	1,537
		257,052	282,041
Current assets			
Inventories	20	**831**	1,801
Trade and other receivables	21	**62,743**	45,397
Amounts due from customers for contract works	22	**31,842**	31,481
Entrusted loan	23	**99,403**	88,832
Held-for-trading investments		**206**	–
Bank deposits	24	**150,955**	239,300
Bank balances and cash	24	**338,886**	171,748
		684,866	578,559
Current liabilities			
Trade and other payables	25	**167,806**	148,787
Amounts due to associates		**212**	644
Customer deposits for contract works		**75,933**	64,620
Income tax payable		**10,488**	10,980
Other loan	26	**8,180**	9,090
		262,619	234,121
Net current assets		**422,247**	344,438
Total assets less current liabilities		**679,299**	626,479

Consolidated Statement of Financial Position

At 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	27	**289,809**	289,809
Share premium and reserves		**385,677**	334,813
Equity attributable to owners of the Company		**675,486**	624,622
Minority interests		**3,813**	1,857
Total equity		**679,299**	626,479

The consolidated financial statements on pages 29 to 94 were approved and authorised for issue by the board of directors on 22nd March, 2010 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, 2009

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2008	289,809	254,079	5,216	9,532	53,345	611,981	2,283	614,264
Profit and total comprehensive income for the year	–	–	–	–	53,215	53,215	(700)	52,515
Dividend paid (Note 13)	–	–	–	–	(40,574)	(40,574)	–	(40,574)
Profit appropriations	–	–	–	4,800	(4,800)	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	34	34
Capital contribution from minority owner of a subsidiary	–	–	–	–	–	–	240	240
At 31st December, 2008	289,809	254,079	5,216	14,332	61,186	624,622	1,857	626,479
Profit and total comprehensive income for the year	–	–	–	–	65,934	65,934	181	66,115
Dividend paid (Note 13)	–	–	–	–	(15,070)	(15,070)	–	(15,070)
Profit appropriations	–	–	–	5,418	(5,418)	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	335	335
Acquisition of minority interest of a subsidiary	–	–	–	–	–	–	(40)	(40)
Capital contribution from minority owners of subsidiaries	–	–	–	–	–	–	1,480	1,480
At 31st December, 2009	289,809	254,079	5,216	19,750	106,632	675,486	3,813	679,299

Consolidated Statement of Cash Flows

For the year ended 31st December, 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**73,690**	58,605
Adjustments for:		
Finance cost	**255**	255
Interest income from bank deposits	**(4,750)**	(5,319)
Interest income from entrusted loan	**(3,368)**	(1,769)
Impairment loss recognised in respect of respect of interest in an associate	**513**	–
Share of results of associates	**(865)**	3,344
Gain on disposal of a subsidiary	**(1,929)**	(1,777)
Gain on disposal of an associate	**(16,000)**	–
Depreciation of property, plant and equipment	**84,995**	65,031
Depreciation of investment property	**2,523**	–
Gain on disposal of property, plant and equipment	**(126)**	(227)
Reversal of impairment loss recognised in respect of inventories	**(27)**	(376)
Allowance for doubtful debts	**3,023**	1,828
Operating cash flows before movements in working capital	**137,934**	119,594
Decrease (increase) in inventories	**937**	(342)
Increase in amounts due from customers for contract work	**(717)**	(4,158)
Increase in trade and other receivables	**(18,306)**	(16,552)
Increase in investments held for trading	**(206)**	–
Increase in trade and other payables	**16,720**	47,176
Increase in customer deposits for contract work	**11,313**	12,929
Decrease in amounts due to associates	**(432)**	(173)
Cash generated from operations	**147,243**	158,474
PRC income tax paid	**(7,836)**	(4,441)
NET CASH FROM OPERATING ACTIVITIES	**139,407**	154,033

Consolidated Statement of Cash Flows

For the year ended 31st December, 2009

	Note	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Interest received		**4,669**	5,319
Dividend received from associates		**2,510**	2,159
Proceeds from disposal of a subsidiary	7	**756**	1,719
Proceeds from disposal of an associate		**16,000**	–
Repayment from associates		**–**	316
Purchase of property, plant and equipment		**(60,941)**	(75,751)
Deposits paid on acquisition of property, plant and equipment		**(1,355)**	(5,098)
Proceeds from disposal of property, plant and equipment		**287**	34
Increase in bank deposits		**(100,955)**	(228,500)
Release from bank deposits		**189,300**	–
Net cash outflow on acquisition of minority interest of a subsidiary		**(40)**	–
Advance of entrusted loan		**(100,000)**	(88,000)
Repayment of entrusted loan		**92,000**	–
NET CASH FROM INVESTING ACTIVITIES		**42,231**	(387,802)
FINANCING ACTIVITIES			
Repayment of borrowings		**(910)**	–
Advances from associates		–	174
Capital contribution from minority owners of subsidiaries		**1,480**	240
Dividend paid		**(15,070)**	(40,574)
NET CASH USED IN FINANCING ACTIVITIES		**(14,500)**	(40,160)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**167,138**	(273,929)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		**171,748**	445,677
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash		**338,886**	171,748

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

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 new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

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

HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009.
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Amendments) Presentation of Financial Statements

(effective for annual periods beginning on or after 1st January, 2009)

The revised standard has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on the results, financial position and cash flow of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

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

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In the current year, there were no borrowing costs capitalised as part of the cost of a manufacturing plant.

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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

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

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

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for annual periods beginning on or after 1 February 2010

5 Effective for annual periods beginning on or after 1 July 2010

6 Effective for annual periods beginning on or after 1 January 2011

7 Effective for annual periods beginning on or after 1 January 2013

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.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial* Instruments*: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The amendments to HKAS 24 *Related Party Disclosures* simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party. The amendments to HKAS 24 provide a partial exemption from the disclosure requirements of HKAS 24 for government-related entities. Specifically, a reporting entity is exempt from the general disclosure requirements of HKAS 24 in relation to related party transactions and outstanding balances (including commitments) with: (i) a government that has control, joint control or significant influence over the reporting entity; and (ii) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The application of HKAS 24 (amendment) shall not have a significant impact to the Group.

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 Consolidated Financial Statements

For the year ended 31st December, 2009

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, except for certain financial instruments which are measured at fair values.

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 statement of comprehensive income 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 Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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 not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

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.

Deposits and instalments received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from 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 on initial recognition.

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 end of each reporting period, 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 the amount can be measured reliably and its receipt is considered probable.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Technology service contracts (continued)

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 statement of financial position, 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 statement of financial position under trade and other receivables.

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 includes 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 profit or loss in the period in which the item is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

If an item of property, plant and equipment carried at cost model becomes an investment property because its use has been changed, evidenced by end of owner-occupation. The carrying amount of the property at the date of transfer is considered as the deemed cost of the investment property at initial recognition. Subsequent to the initial recognition, the investment properties are stated at deemed cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment property over its estimated useful lives and after taking into account its estimated residual value, using the straight-line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period in which the item is derecognized.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs (continued)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Retirement benefit costs

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

The Group's financial assets are classified into 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL include 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 the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivable, amounts due from customers for contract work, 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 the end of each reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of reporting period. 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 all 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 and other 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 and other 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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.

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.

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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 share 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses other than goodwill

At the end of the reporting period, 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 any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. 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. CRITICAL ACCOUNTING JUDGEMENT AND 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies

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.

Key sources of estimation uncertainty

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Technology service contracts

Revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period. 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 Consolidated Financial Statements

For the year ended 31st December, 2009

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:

	2009	2008
	RMB'000	RMB'000
Sales of goods	**7,956**	9,730
Income from technical service contracts	**355,169**	329,769
Total income	**363,125**	339,499

6. SEGMENTS INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assess its performance. The Group's Chief Executive Officer ("CEO") is identified as the chief operating decision maker. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments based on e-Government technology services and e-Commerce technology services.

CEO for the purpose of resource allocation and assessment of performance, reviewed consolidated profit after taxation and the consolidated revenue of the Group as a whole reported under PRC GAAP, which has no any significant differences as compared with the consolidated revenue reported under HKFRS. Therefore, the operation of the Group constitutes one single operating segment. Accordingly, no operating segment is presented, other than the entity-wide disclosure.

The Group's operations are located on the PRC and all the revenue of the Group comes from PRC customers, as well as all of the assets are located in the PRC. Aggregated revenues from state-controlled entities and the PRC government are approximately RMB323,579,000 (2008: RMB321,897,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

7. DISPOSAL OF SUBSIDIARIES

(a) On 17th September, 2009, the Company entered into a sale agreement with an independent third party to dispose of its interest in a subsidiary, Chongqing Hongxin Software Company Limited and its subsidiary ("Chongqing Hongxin") for a cash consideration of RMB840,000. The subsidiaries are engaged in software development and related businesses. The disposal was completed on 28th October, 2009, on which date the control of Chongqing Hongxin was passed to the acquirer.

The net liabilities of Chongqing Hongxin at the date of disposal were as follows:

	At 28.10.2009
	RMB'000
Net liabilities disposed:	
Property, plant and equipment	**417**
Inventories	**60**
Amount due from customers for contract work	**356**
Trade and other receivables	**902**
Bank balances and cash	**84**
Trade and other payables	**(3,243)**
	(1,424)
Minority interests	**335**
Gain on disposal	**1,929**
Total consideration	**840**
Satisfied by:	
Cash	**840**
Net cash inflow arising on disposal:	
Cash consideration	**840**
Bank balances and cash of subsidiaries disposed of	**(84)**
	756

7. DISPOSAL OF SUBSIDIARIES (continued)

(b) 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:

	At 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

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For the year ended 31st December, 2009

8. GAIN ON DISPOSAL OF AN ASSOCIATE

On 30th July, 2009, the Company entered into an equity transfer agreement with an independent third party to dispose of its equity interest in an associate, Touch Beijing IT Development Co., Ltd. for a cash consideration of RMB16,000,000. The associate is engaged in provision of information application services and related businesses. The original investment cost of this associate was RMB16,000,000, after share loss of this associate amounted to RMB14,858,000 and impairment loss amounted to RMB1,142,000, the carrying amount is nil as of 31st December, 2008.

9. PROFIT BEFORE TAX

	2009 **RMB'000**	2008 RMB'000
Profit before tax has been arrived at after charging:		
Directors' and supervisors' remuneration (Note 10)	**1,347**	1,550
Other staff costs	**99,825**	92,625
Other staff's retirement benefit scheme contributions	**6,204**	5,347
	107,376	99,522
Less: Staff costs included in research and development costs	**(11,509)**	(9,893)
Staff costs included in cost of sales	**(38,978)**	(32,758)
	56,889	56,871
Depreciation	**87,518**	65,031
Less: Depreciation included in research and development costs	**(896)**	(1,658)
Depreciation included in cost of sales	**(53,965)**	(51,205)
	32,657	12,168
Operating lease rentals in respect of		
– cable network	**13,455**	11,377
– land and buildings	**11,572**	13,793
	25,027	25,170

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

9. PROFIT BEFORE TAX (continued)

	2009	2008
	RMB'000	RMB'000
Less: Operating lease rentals included in research and development costs	(1,181)	(909)
Operating lease rentals included in cost of sales	(8,885)	(8,316)
	14,961	15,945
Allowance for doubtful debts	3,023	1,828
Auditors' remuneration	1,843	1,733
Cost of inventories recognised as expenses (including write down (2008: reversal) of inventories)	17,080	44,870
Loss (gain) on disposal of property, plant and equipment	126	(227)
Share of tax of an associate (included in share of results of associates)	1,404	416
and after crediting:		
Government grants (note)	9,749	8,443
Interest income from bank deposits	4,750	5,319
Interest income from entrusted loan	3,368	1,769
Dividend income from available-for-sale investment	245	407
Gross rental income from investment property	3,397	–
Less: Direct operating expenses from investment properties that generated rental income during the year	(283)	–
	3,114	–

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.

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For the year ended 31st December, 2009

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2009	2008
	RMB'000	RMB'000
Fees		
– independent non-executive directors	**177**	150
Other emoluments for non-executive directors	**–**	–
Other emoluments for executive directors		
– basic salaries and allowances	**916**	1,153
– retirement benefit scheme contributions	**15**	22
	931	1,175
Other emoluments for supervisors		
– basic salaries and allowances	**229**	219
– retirement benefit scheme contributions	**10**	6
	239	225
	1,347	1,550

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For the year ended 31st December, 2009

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The emoluments paid or payable to each of the 19 (2008: 20) directors and supervisors were as follows:

		Other emoluments		
2009	**Fees**	**Basic salaries and allowances**	**Retirement benefit scheme contributions**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Directors				
Dr. Li Minji	–	–	–	–
Dr. Wang Xu	–	741	10	751
Ms. Sun Jing (appointed on 19th June, 2009)	–	–	–	–
Ms. Li Zhi (appointed on 19th June, 2009)	–	–	–	–
Mr. Pan Jiaren	–	–	–	–
Mr. Cao Jun (appointed on 15th January, 2009)	–	–	–	–
Mr. Qi Qigong	–	–	–	–
Ms. Lu Xiaobing	–	–	–	–
Mr. Chen Jing	62	–	–	62
Dr. Wang Huacheng (appointed on 19th June, 2009)	34	–	–	34
Mr. Gong Zhiqiang (appointed on 19th June, 2009)	31	–	–	31
Ms. Zhang Yan (resigned on 19th June, 2009)	–	176	5	181
Mr. Xu Zhe (resigned on 19th June, 2009)	–	–	–	–
Dr. Xia Peng (resigned on 15th January, 2009)	–	–	–	–
Mr. Ye Lu (resigned on 19th June, 2009)	25	–	–	25
Mr. Liu Dongdong (resigned on 19th June, 2009)	25	–	–	25
Supervisors				
Ms. Liu Jian	–	–	–	–
Ms. Gao Yuanjun	–	–	–	–
Ms. Xu Xiangyan	–	228	10	238
	177	1,145	25	1,347

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

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

No directors have waived any emoluments in the year ended 31st December, 2009 (2008: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2008: one) executive director of the Company, whose emoluments are included in Note 10 above. The emoluments of the remaining four (2008: four) highest paid individual as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries and allowances	**2,343**	2,376
Retirement benefit scheme contributions	**42**	37
	2,385	2,413

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 HK$1,000,000 (RMB880,500).

12. INCOME TAX EXPENSE

The Company is awarded "key software enterprise under state planning and layout" (國家規劃佈局內重點軟體企業) by State Development and Reform Commission, Ministry of Industry and Information, Ministry of Commerce and State General Administration of Taxation this year. Thus, according to the relevant laws and regulations in the PRC, it is subject to PRC income tax at 10% of the estimated assessable profit for the year. The Company was recognised as a New and High-Tech Enterprise in 2008, according to the Law of the People's Republic of China on Enterprise Income Tax and subject to PRC income tax at 15% of the estimated assessable profit for the year 2008.

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12. INCOME TAX EXPENSE (continued)

The Company's subsidiaries, Capinfo Technology Development Co., Ltd. and Beijing Culture & Sports Technology Co., Ltd. are recognised as High-Technology Enterprises which were 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 year of operation and entitled to a 50% relief from income tax for the three years ("Tax Holiday") from 1st January, 2010 to 31st December, 2012. Under the implementation of Transitional Tax Relief Rules, the tax holiday can be enjoyed on going after the implementation of the New Law until the expiry dated on 31st December, 2012. The Company's subsidiaries, Dongguan Longxin Digital Technology Co., Ltd. and Capinfo Soft Co., Ltd. are recognised as Soft Enterprises which were approved by the local Bureau of Industry and Information Technology. Pursuant to the relevant laws and regulations in the PRC, these companies are entitled to exemption from income tax for two years commencing from the first profit-making year of operation and entitled to a 50% relief from income tax for the three years from 1st January, 2010 to 31st December, 2012. Therefore, the above four Company's subsidiaries are entitled to exemptions from income tax for the year of 2009.

In addition, pursuant to recognition of Soft Enterprises by the local Bureau of Industry and Information Technology, the Company's subsidiaries, Dongguan Longxin Digital Technology Co., Ltd. and Capinfo Soft Co., Ltd. qualify to apply for a exemption of income tax in 2008. As a result, a tax credit of approximately RMB420,000 for the year ended 31st December, 2008 is recognised in this year. Pursuant to an announcement made by the State Administration of Taxation in 2008, certain entities including the Company qualified 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 was recognised in 2008.

	2009	2008
	RMB'000	RMB'000
The charge comprises:		
PRC income tax		
Current year	**7,764**	10,029
Tax credit for previous year	**(420)**	(2,402)
	7,344	7,627
Deferred tax charge (credit)	**231**	(1,537)
	7,575	6,090

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

12. INCOME TAX EXPENSE (continued)

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

	2009	2008
	RMB'000	RMB'000
Profit before tax	**73,690**	58,605
Tax at domestic income tax rate of 10% (2008: 15%)	**7,369**	8,791
Tax effect of income not taxable for tax purpose	**(193)**	–
Tax effect of expenses that are not deductible in determining taxable profit	**1,204**	(710)
Tax effect of deductible temporary differences not recognised	**2,196**	1,294
Utilisation of deductible temporary differences previously not recognised	**(1,600)**	–
Tax effect of Tax Holiday granted to subsidiaries	**(1,599)**	(2,244)
Tax effect of tax losses of subsidiaries not recognised	**137**	860
Tax effect of share of (profit) losses of associates not recognised	**(35)**	501
Tax effect of different tax rates of subsidiaries	**4**	–
Decrease in opening deferred tax assets resulting from the decrease in applicable tax rate	**512**	–
Tax credit for previous year	**(420)**	(2,402)
Tax expense for the year	**7,575**	6,090

At the end of reporting period, the subsidiaries have unused tax losses of approximately RMB680,000 (2008: RMB16,000,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses will expire before 2014.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

13. DIVIDEND

A final dividend of RMB0.52 cents (2007: RMB1.40 cents) per share, amounting to an aggregate amount of RMB15,070,000 (2007: RMB40,574,000) for the year ended 31st December, 2008 has been declared and paid during the year.

No dividend has been proposed since the end of the reporting period.

14. 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 RMB65,934,000 (2008: RMB53,215,000) and 2,898,086,091 (2008: 2,898,086,091) shares in issue during the year.

The calculation of diluted earnings per share did not take into account the share option of the Company for the year ended 31st December, 2009 and 2008 because the exercise price of the Company's share options was higher than the average market price of the Company's shares for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

15. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB'000	Network equipment RMB'000	Furniture and fixtures RMB'000	Office equipment motor vehicles RMB'000	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost								
At 1st January, 2008	127,364	424,035	7,679	420	–	20,330	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 subsidiaries	(908)	–	–	–	–	(9)	–	(917)
At 31st December, 2008	125,798	460,756	8,135	589	75,690	20,321	12,400	703,689
Additions	11,187	54,013	648	170	–	2,322	2,986	71,326
Transfer to investment property	–	–	–	–	(75,690)	–	–	(75,690)
Eliminated on disposals	(4,510)	(10,039)	(53)	–	–	–	–	(14,602)
Arising from disposal of subsidiaries	(1,120)	(40)	(1,131)	(327)	–	(872)	–	(3,490)
At 31st December, 2009	131,355	504,690	7,599	432	–	21,771	15,386	681,233
Depreciation								
At 1st January, 2008	116,458	293,017	3,729	141	–	12,414	–	425,759
Provided for the year	9,724	52,327	1,310	233	640	797	–	65,031
Eliminated on disposals	(8,509)	(19,770)	(77)	–	–	–	–	(28,356)
Arising from disposal of subsidiaries	(667)	–	–	–	–	(8)	–	(675)
At 31st December, 2008	117,006	325,574	4,962	374	640	13,203	–	461,759
Provided for the year	13,640	68,677	1,221	34	1,262	161	–	84,995
Transfer to investment property	–	–	–	–	(1,902)	–	–	(1,902)
Eliminated on disposals	(4,442)	(9,946)	(53)	–	–	–	–	(14,441)
Arising from disposal of subsidiaries	(906)	(35)	(966)	(294)	–	(872)	–	(3,073)
At 31st December, 2009	125,298	384,270	5,164	114	–	12,492	–	527,338
Carrying values								
At 31st December, 2009	6,057	120,420	2,435	318	–	9,279	15,386	153,895
At 31st December, 2008	8,792	135,182	3,173	215	75,050	7,118	12,400	241,930

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15. 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

16. INVESTMENT PROPERTY

	RMB'000
COST	
At 1st January, 2008 and 1st January, 2009	–
Transfer from property, plant and equipment	73,788
At 31st December, 2009	73,788
DEPRECIATION	
At 1st January, 2008 and 1st January, 2009	–
Provided for the year	2,523
At 31st December, 2009	2,523
CARRYING AMOUNT	
At 31st December, 2009	71,265
At 31st December, 2008	–

Notes to the Consolidated Financial Statements

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16. INVESTMENT PROPERTY (continued)

The investment property is situated in the PRC under medium lease term and leased out for rental.

The fair value of the Group's investment property at 31 December 2009 was RMB119,000,000. The fair value has been arrived at based on a valuation carried out by DTZ Company, independent valuers not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

The above investment property is depreciated on a straight-line basis at the 5% rate per annum.

At 31st December, 2009, the title certificate of the property has not been issued to the Group.

17. INTERESTS IN ASSOCIATES

	2009	2008
	RMB'000	RMB'000
Cost of unlisted investment in associates	**33,071**	49,638
Less: Unrealised profit eliminated	**(2,014)**	(2,238)
	31,057	47,400
Share of capital reserve	**5,216**	5,796
Share of post-acquisition loss, net of dividends received	**(14,186)**	(28,951)
	22,087	24,245

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17. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates, which are private limited companies established and operating in the PRC, at the end of reporting period are as follows:

Name of associate	Proportion of registered capital held by the Group		Principal activities
	2009	2008	
北京數字証書認證中心有限公司 (Beijing Certificate of Authority Center Company Limited)	**47.71%**	47.71%	Provision of services related to digital certificates
重慶宏信瀚宇網絡技術有限公司 (Chongqing Hongxin Hanyu Internet Company Limited)	**35.44%**	39.38%	Network game software development 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
北京信用管理有限公司 (Beijing Credit Management Bureau Co., Ltd.)	**22.32%**	22.32%	Provision of credit rating and reporting and risk assessment related information and consultancy services
北京首信創安數碼科技有限公司 (Beijing Chuangan Digital Tec. Co., Ltd.)	**20%**	20%	Provision of security information application services and related businesses
北京首通萬維信息技術發展有限公司 (Touch Beijing IT Development Co., Ltd.)	**–**	40%	Provision of information application services and related businesses

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17. INTERESTS IN ASSOCIATES (continued)

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

	2009	2008
	RMB'000	RMB'000
Total assets	**99,715**	118,568
Total liabilities	**(50,072)**	(72,972)
Net assets	**49,643**	45,596
Group's share of net assets of associates	**22,087**	26,483
Turnover	**92,230**	83,429
Loss for the year	**(5,223)**	(8,590)
Group's share of profits (losses) of associates for the year	**865**	(3,344)

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:

	2009	2008
	RMB'000	RMB'000
Unrecognised share of loss of associates for the year	**(3,201)**	(3,197)
Transfer out resulting from disposal of an associate	**5,859**	–
Accumulated unrecognised share of loss of associates	**(1,465)**	(4,123)

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18. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
	RMB'000	RMB'000
Unlisted equity investments, at cost	**1,350**	1,350

The above unlisted 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 at the end of reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Details of the investments at the end of reporting period are as follows:

Name of investee	Place of incorporation/ establishment	Proportion of nominal value of registered/share capital held by the Group		Principal activities
		2009	2008	
廣東開普互聯信息科技有限公司 (Guangdong UCAP Information Tec. Co., Ltd.)	PRC	**5%**	5%	Development of computer software, computer system integration and technical consultancy
Astoria Innovations Co., Ltd.	British Virgin Islands	**5%**	5%	Provision of labour force digitalisation market service and related businesses

Notes to the Consolidated Financial Statements

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19. DEFERRED TAXATION

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

	Accrued expense
	RMB'000
At 1st January, 2008	–
Charge to profit or loss for the year	1,537
At 31st December, 2008	1,537
Effect of change in tax rate	(512)
Charge to profit or loss for the year	281
At 31st December, 2009	1,306

20. INVENTORIES

The inventories comprise of consumables.

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21. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables		
– a fellow subsidiary	**9,545**	1,276
– other state-controlled entities and the PRC government	**42,676**	32,449
– third parties	**9,421**	9,514
Total trade receivables	**61,642**	43,239
Less: Allowance for doubtful debts	**(11,763)**	(9,362)
	49,879	33,877
Less: Non-current portion which shown in non-current assets (note)	**(5,794)**	(7,881)
	44,085	25,996
Other receivables, deposits and prepayments	**19,865**	19,986
Less: Allowance for doubtful debts	**(1,207)**	(585)
	18,658	19,401
Trade and other receivables shown in current assets	**62,743**	45,397

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 end of reporting period:

	2009 RMB'000	2008 RMB'000
0 to 60 days	**31,760**	27,675
61 to 90 days	**1,006**	242
91 to 180 days	**2,223**	791
Over 180 days	**14,890**	5,169
	49,879	33,877

Note: Included in the balance of trade receivables at 31st December, 2008 was a trade receivable of approximately RMB10 million which will be settled by equal annual installment within 5 years from 1st July, 2009 in accordance with the terms of payment of the contract with a customer. As at 31st December, 2009, the remaining balance of that trade receivable is approximately RMB7.9 million. The portion that will be settled after one year are shown and included as non-current assets at the end of reporting period. The effective interest rate applied on this receivable is 3.33% per annum.

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For the year ended 31st December, 2009

21. TRADE AND OTHER RECEIVABLES (continued)

Movement in the allowance for the doubtful debts:

	2009	2008
	RMB'000	RMB'000
Balance at beginning of the year	**9,947**	16,418
Impairment losses recognised during the year	**3,023**	1,828
Write off during the year	**–**	(8,299)
Balance at end of the year	**12,970**	9,947

The overdue balances were approximately RMB7,009,000 aged over 180 days as at 31st December, 2009 (2008: RMB5,169,000 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. The Group does not hold any collateral over these balances.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. 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 RMB11,763,000 (2008: RMB9,362,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2009	2008
	RMB'000	RMB'000
Contract costs incurred to date	**223,489**	151,263
Recognised profits less recognised losses	**118,323**	78,931
	341,812	230,194
Less: Progress billings	**(234,037)**	(134,093)
Customer deposits for contract works	**(75,933)**	(64,620)
	31,842	31,481

23. ENTRUSTED LOAN

On 25th September, 2009, the Company entered into an entrusted loan agreement with 中國民生銀行股份有限公司 (China Minsheng Banking Co., Ltd.) ("Minsheng Bank") and北京汽車工業控股有限責任公司 (Beijing Automotive Industry Holding Co., Ltd.) ("BAIHC"). Pursuant to the agreement, the Company lent a short term loan of RMB100 million to BAIHC via Minsheng Bank, which will be repayable in one lump sum on 24th September, 2010. The loan is secured by dividend, if any that will be declared for the year ended 31st December, 2009 by 北京汽車投資有限公司 (Beijing Automobile Investment Co., Ltd.) ("BAIC") to BAIHC. The loan interest is charged at 85% of the prevailing one-year bank lending rate set by the People's Bank of China from time to time. The effective interest rate of the entrusted loan is 4.3%. The interest payment will be settled quarterly. BAIHC is an enterprise owned by the PRC government and BAIC is a subsidiary of BAIHC.

The management have performed an assessment on the financial capability of BAIHC and considered that there is no significant risk to recover the loan. Thus, the directors consider that no impairment loss is provided for the entrusted loan.

The entrusted loan lent to 北京巨鵬投資公司 (Beijing Jupeng Investment Company Limited) in 2008 was fully repaid on 24th July, 2009, according to the terms of the trust and loan agreements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

24. BANK BALANCES AND CASH/BANK DEPOSITS

Bank balances and cash

Bank balances carry interest at a market rate of 0.36% (2008: 0.36%) per annum.

Bank deposits

Bank deposits carry fixed interest rates which range from 1.71% to 1.98% (2008:1.71% to 1.98%) per annum with maturity periods within three to six months.

25. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	RMB'000
Trade payables		
– third parties	**24,268**	24,202
– a fellow subsidiary	**47**	–
Total trade payables	**24,315**	24,202
Government grants not recognised as income	**10,768**	17,828
Other payables and accrued expenses	**131,252**	104,716
Customer deposits	**1,471**	2,041
	167,806	148,787

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

25. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables at the end of reporting period:

Age	2009 RMB'000	2008 RMB'000
0 to 60 days	**14,436**	13,215
61 to 90 days	**8**	1,766
91 to 180 days	**2,187**	3,559
Over 180 days	**7,684**	5,662
	24,315	24,202

26. OTHER LOAN

	2009 RMB'000	2008 RMB'000
Carrying amount repayable within one year and shown under current liabilities	**8,180**	9,090

The loan was granted by the PRC government in 2002, denominated in Renminbi, unsecured and bears interest at fixed interest rate is 2.55% (2008: 2.55%) per annum for the year ended 31st December, 2009.

27. 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, 2008, 31st December, 2008 and 31st December, 2009	2,123,588,091	774,498,000	289,809

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

28. 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 1.1.2008	Reclassified during the year (Note (i))	Lapsed during the year	Outstanding at 31.12.2008	Reclassified during the year (Note (ii))	Lapsed during the year	**Outstanding at 31.12.2009**
Directors	6,356,550	(1,261,700)	–	5,094,850	(1,308,200)	–	**3,786,650**
Supervisors	2,509,450	–	(1,264,800)	1,244,650	–	–	**1,244,650**
Senior management	4,836,620	1,261,700	(784,920)	5,313,400	–	–	**5,313,400**
Senior advisors	3,929,250	–	–	3,929,250	1,308,200	–	**5,237,450**
Advisors	2,808,910	–	(745,860)	2,063,050	–	–	**2,063,050**
Other employees	17,563,670	–	(758,880)	16,804,790	–	(1,250,230)	**15,554,560**
	38,004,450	–	(3,554,460)	34,449,990	–	(1,250,230)	**33,199,760**

The options outstanding at the end of the year have a remaining contractual life of 2 years (2008: 3 years). None of the pre-IPO share options has been exercised during the year.

Notes:

(i) Dr. Wu Bo resigned as the director on 2nd June, 2008. The share options reclassified from the category of directors to senior management.

(ii) Ms. Zhang Yan resigned as the director on 19th June, 2009. The share options which she holds were reclassified from the category of directors to senior advisors.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

28. 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 Consolidated Financial Statements

For the year ended 31st December, 2009

28. 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 1.1.2008	Reclassified during the year (Note (i))	Lapsed during the year	Outstanding at 31.12.2008	Reclassified during the year	Lapsed during the year (Note (ii))	**Outstanding at 31.12.2009**
Directors	7,330,000	(1,466,000)	–	5,864,000	(1,466,000)	–	**4,398,000**
Supervisors	2,932,000	–	(1,466,000)	1,466,000	–	–	**1,466,000**
Senior management	7,700,000	1,466,000	(1,925,000)	7,241,000	–	–	**7,241,000**
Senior advisors	13,964,000	–	–	13,964,000	1,466,000	–	**15,430,000**
Advisors	2,384,000	–	(459,000)	1,925,000	–	–	**1,925,000**
Other employees	18,313,000	–	(1,305,000)	17,008,000	–	(1,667,000)	**15,341,000**
	52,623,000	–	(5,155,000)	47,468,000	–	(1,667,000)	**45,801,000**

Notes:

(i) 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.

(ii) Ms. Zhang Yan resigned as the director on 19th June, 2009. The share options which she holds were reclassified from the category of directors to senior advisors.

The options outstanding at the end of the year have a remaining contractual life of 5 years (2008: 6 years).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

28. SHARE OPTIONS (continued)

(b) Share option scheme (continued)

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

29. 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 Consolidated Financial Statements

For the year ended 31st December, 2009

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loan and receivables (including cash and cash equivalents)	**681,231**	577,467
Available-for-sale financial assets	**1,350**	1,350
Held for trading investment	**206**	–
Financial liabilities		
Amortised cost:		
Trade and other payables	**155,567**	128,918
Amounts due to associates	**212**	644
Other loan	**8,180**	9,090
	163,959	138,652

Financial risk management objectives and polices

The Group's major financial instruments include bank deposits, bank balances and cash, trade and other receivables, amount due from customers for contract works, entrusted loan, amounts due 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.

30. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and polices (continued)

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed interest rate bank deposits and other loan (see notes 24 and 26). The Group's cash flow interest rate risk related primarily to its variable interest rate entrusted loan and bank balances (see notes 23 and 24). 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 end of reporting period, the analysis is prepared assuming the amount of asset outstanding at the end of reporting period 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 end of reporting period, 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 RMB394,000 for the year ended 31st December, 2009 (2008: RMB411,000).

30. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and polices (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 end of reporting period, 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 statement of financial position.

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 end of reporting period 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 balances and deposits 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

30. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and polices (continued)

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.

Liquidity tables

	Effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31.12.2009						
Trade and other payables	–	15,264	21,519	118,784	155,567	155,567
Amounts due to associates	–	212	–	–	212	212
Other loans	2.55	–	–	8,389	8,389	8,180
		15,476	21,519	127,173	164,168	163,959

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

30. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and polices (continued)

Liquidity tables (continued)

	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	59,706	128,918	128,918
Amounts due to associates	–	644	–	–	644	644
Other loans	2.55	–	–	9,322	9,322	9,090
		20,891	48,965	69,028	138,884	138,652

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.

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.

The fair value measurements of held-for-trading investment are derived from quoted prices in active market.

31. 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 26, and equity attributable to owners of the Group, comprising issued share capital, reserves and accumulated profits.

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For the year ended 31st December, 2009

32. OPERATING LEASES

The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009	2008
	RMB'000	RMB'000
Land and buildings		
Within one year	**7,316**	5,576
In the second to fifth year inclusive	**6,474**	2,403
	13,790	7,979

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

The Group as lessor

At the end of reporting period, the Group had contracted with tenants for the following future minimum lease:

	2009	2008
	RMB'000	RMB'000
Within one year	**7,291**	–
In the second to fifth year inclusive	**21,210**	–
	28,501	–

The property held has committed tenants for a term of 3 to 5 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

33. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**24,875**	11,179

34. 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 profit or loss of RMB6,204,000 (2008: RMB5,375,000) represents contributions paid or payable under the retirement benefit scheme.

35. RELATED PARTY DISCLOSURES

(i) Transactions with holding company and fellow subsidiaries

Related party	**Nature of transactions**	Notes	**2009 RMB'000**	2008 RMB'000
Holding company				
China United Network Communications Corporation Limited (formerly known as CNC Beijing Communication Corporation) ("China Unicom")	Dedicated circuit leasing services paid	(a)	**12,394**	7,794
	Telephone related services paid	(b)	**793**	549
Fellow subsidiaries				
Capnet Company Limited ("Capnet")	Income received for providing the network system and related maintenance services	(c)	**8,040**	8,040
Beijing IC Design Park Co., Ltd. ("BIDP")	Rental paid for office premises	(d)	**3,971**	4,060

Notes to the Consolidated Financial Statements

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35. 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) China Unicom 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 (2008: RMB8,040,000) was recognised for the year.

(d) On 31st March, 2009, 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, 2009 to 31st March, 2012 and approximately RMB3,971,000 (2008: RMB4,060,000) was recognised for the year.

(ii) Transactions with associates

Associates	**Nature of transactions**	**2009 RMB'000**	2008 RMB'000
Beijing Certificate of Authority Center Company Limited	Software development and providing related technical services to the Group	**947**	795
Beijing Community Service Company Limited	Software development and providing related technical services to the Group	**–**	291

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For the year ended 31st December, 2009

35. 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 RMB323,579,000 (2008: RMB321,897,000) 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 RMB8,180,000 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 (2008: RMB255,000) in the year.

Entrusted loan of RMB100 millions is lent to BAIHC as set out in note 23.

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 RMB67,877,000 (2008: RMB64,620,000) as at 31st December, 2009, 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

35. RELATED PARTY DISCLOSURES (continued)

(iv) Amount due to associates

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

(v) Compensation of key management personnel

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

	2009	2008
	RMB'000	RMB'000
Short-term benefits	**5,629**	5,473
Post-employment benefits	**100**	79
	5,729	5,552

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

36. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at the end of reporting period 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 2009	2008	Principal activities
Directly held						
Capinfo (Hong Kong) Company Limited	Private limited company	Hong Kong	HK$2	**100%**	100%	Investment holding
首都信息科技發展有限公司 (Capinfo Technology Development Co., Ltd.)	Private limited company	PRC	RMB50,000,000	**100%**	100%	Developing software; providing technical service; sale of hardware and software
北京文化體育科技有限公司 (Beijing Culture & 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
北京經信博匯諮詢有限公司 (Beijing Maxway Consulting Co., Ltd.) (formerly known as 北京城市之窗科技發展有限公司 Beijing City Technology Development Co., Ltd.)	Private limited company	PRC	RMB300,000	**100%**	85%	Providing information exchange platform service
北京首信航源科技有限公司 (Beijing Capinfo Hangyuan Technology Co., Ltd.)	Private limited company	PRC	RMB1,000,000	**80%**	80%	Developing, sale and implementing software and providing related technical services

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2009

36. 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 2009	2008	Principal activities
Directly held (continued)						
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
東莞市龍信數碼科技有限公司 (Dongguan Longxin Digital Technology Company Limited)	Private limited company	PRC	RMB2,000,000	**60%**	60%	e-Commerce application and network developments
重慶宏信軟件有限責任公司 (Chongqing Hongxin Software Company Limited)	Private limited company	PRC	RMB20,000,000	**-**	90%	Software development and related businesses
Indirectly held						
北京宏信軟件有限公司 (Beijing Hongxin Software Development Co., Ltd.)	Private limited company	PRC	RMB1,000,000	**-**	60%	Developing, sale and implementing software and providing related technical services

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

37. SUBSEQUENT EVENT

On 11th February, 2010, the Company announced that it will have an extraordinary general meeting and class meetings of the Company to the held on 30th March, 2010 for the proposed transfer of listing of the Company from the Growth Enterprise Market to the Main Board of the Stock Exchange.

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, 18 June 2010 at 10:00 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 2009;

2. To consider and approve the supervisors' report of the Company for the year 2009;

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

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

5. To consider and approve any motion proposed by any shareholders holding 3% 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
29 March 2010

* *For identification purpose only*

Notice of Annual General Meeting

Notes:

1. The register of shareholders of the Company will be closed from 19 May 2010 (Wednesday) to 17 June 2010 (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 18 May 2010 (Tuesday) will be entitled to attend and vote at the AGM.

2. Any holder of Shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the AGM on his behalf. A proxy need not be a shareholder of the Company.

3. A voting proxy form for the AGM is enclosed. In order to be valid, the instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing or, if the appointor is a legal person, it shall be under seal or under the hand of a Director or attorney duly authorized.

4. The instrument appointing a proxy shall be deposited to the Company's H Shares registrar in Hong Kong at Hong Kong Registrars Limited at 17M Floor, 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 17M Floor, 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 28 May 2010 (Friday). The reply slip may be delivered by hand or by post.