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**CAPINFO COMPANY LIMITED\***  
**首都信息發展股份有限公司**

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

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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**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 announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Achieved a turnover of approximately RMB254.2 million for the year ended 31st December, 2005, representing an approximately 5% increase over that of the previous year;
- Attained an audited profit attributable to the equity holders of the parent of approximately RMB4.3 million for the year ended 31st December, 2005;
- The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2005.

## CHAIRMAN'S STATEMENT

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

The board of Directors (the “Board”) of Capinfo Company Limited (the “Company”) announces that, for the year ended 31st December, 2005, the Company and its subsidiaries (collectively the “Group”) recorded an audited turnover of approximately RMB254.2 million, representing an increase of approximately 5% over that of last year, and a gross profit margin of 26%, as compared with 28% for last year. The Group has attained an audited profit attributable to equity holders of the parent of approximately RMB4.3 million for the year under review as against loss attributable to equity holders of the parent of approximately RMB1.8 million last year.

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

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

The Group’s current ratio, defined as total current assets over total current liabilities, maintained at a relatively high level of over 4.0 while the gearing ratio, defined as total borrowing over net assets, stayed at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.

As at 31st December, 2005, the Group had unsecured borrowings of RMB10 million, bear interests of average interest rate of 2.55%, out of which RMB7 million will mature within 1 year and RMB3 million will mature within 2-5 years from 31st December, 2005. Cash and bank deposits of the Group as at 31st December, 2005 were mainly derived from shareholders’ contribution and working capital generated from operations.

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

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

In 2004, a claim of RMB28,000,000 was raised by a contractor against the Group for the suspension of a contract of RMB8,400,000 regarding development and maintenance of intellectual properties of an e-Government information system. The remaining consideration payable by the Company for such service under the contract amounted to RMB6,300,000. On 9th December 2004, a judgement was handed down by First Intermediate Court of Beijing of the PRC, and the judge found in favour of the contractor and the Company was ordered to pay damages of approximately RMB14,280,000 (inclusive of the remaining consideration of RMB6,300,000). The directors are of the opinion that the contractor failed to perform its obligations under the contract and an appeal was lodged by the Company on 23rd December 2004. Provision for the claim has been made as at 31st December 2005 at the directors’ best estimate based on evidence available up to the report date.

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

## **Business Review**

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

### **Foundation Business**

#### *Medical Insurance System*

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

#### *e-Community Business*

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

#### *e-Government Private Network*

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

#### *Call Centre Business*

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

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

## **Business Development**

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

### *City management information platform*

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

### *Crisis Commanding Centres*

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

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

## **Investment**

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

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

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

## **Research and Development**

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

## **Future Prospects**

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

## Employees

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

## ANNUAL RESULTS

The Board of Directors (the "Board") of the Company announces that the audited consolidated results of the Group for the year ended 31st December 2005, together with the comparative figures for the corresponding period of 2004, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December 2005*

	<i>NOTES</i>	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i>
Turnover	3	<b>254,187</b>	241,455
Cost of sales		<b>(188,526)</b>	(174,370)
Gross profit		<b>65,661</b>	67,085
Other income		<b>21,864</b>	11,499
Research and development costs		<b>(21,173)</b>	(17,188)
Marketing and promotional expenses		<b>(9,171)</b>	(13,820)
Administrative expenses		<b>(46,174)</b>	(39,631)
Interest on other loan wholly repayable within five years		<b>(255)</b>	(289)
Share of losses of associates		<b>(2,398)</b>	(4,037)
Share of loss of a jointly controlled entity		<b>(806)</b>	(1,491)
Gain on disposal of a subsidiary		<b>–</b>	250
Profit before tax	4	<b>7,548</b>	2,378
Income tax expense	5	<b>(3,118)</b>	(4,782)
Profit (loss) for the year		<b><u>4,430</u></b>	<u>(2,404)</u>
Attributable to:			
Equity holders of the parent		<b>4,332</b>	(1,806)
Minority interests		<b>98</b>	(598)
		<b><u>4,430</u></b>	<u>(2,404)</u>
Earnings (loss) per share – Basic	7	<b><u>0.15 cents</u></b>	<u>(0.06 cents)</u>

# CONSOLIDATED BALANCE SHEET

At 31st December 2005

	<i>NOTES</i>	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		<b>141,446</b>	165,029
Interests in associates		<b>32,932</b>	26,370
Interest in a jointly controlled entity		<b>1,151</b>	1,957
Non-trading securities		–	16,350
Available-for-sale investments		<b>1,350</b>	–
Deposits paid on acquisition of property, plant and equipment		<b>10,340</b>	658
		<b>187,219</b>	210,364
Current assets			
Inventories	8	<b>17,005</b>	19,766
Amounts due from customers for contract work	9	<b>27,579</b>	17,973
Trade and other receivables	10	<b>46,713</b>	104,773
Amounts due from associates and a jointly controlled entity		<b>1,182</b>	4,670
Bank balances and cash		<b>396,562</b>	285,703
		<b>489,041</b>	432,885
Property, plant and equipment held for sale		<b>1,265</b>	–
		<b>490,306</b>	432,885
Current liabilities			
Trade and other payables	11	<b>96,922</b>	61,275
Customers' deposits for contract work		<b>13,247</b>	22,012
Taxation payable		<b>4,597</b>	4,931
Current portion of other loan	12	<b>7,000</b>	4,000
		<b>121,766</b>	92,218
Net current assets		<b>368,540</b>	340,667
		<b>555,759</b>	551,031
Capital and reserves			
Share capital	13	<b>289,809</b>	289,809
Reserves		<b>258,272</b>	253,940
Equity attributable to equity holders of the parent		<b>548,081</b>	543,749
Minority interests		<b>4,678</b>	1,282
Total equity		<b>552,759</b>	545,031
Non-current liabilities			
Other loan	12	<b>3,000</b>	6,000
		<b>555,759</b>	551,031



## 1. GENERAL

The Company is a listed public limited company established in Beijing, the People's Republic of China (the "PRC"). Its ultimate holding company is Beijing State-owned Assets Management Corporation Limited ("BSAM"), a state-owned enterprise, also established in the PRC.

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

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

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

### **Business combinations**

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

#### *Goodwill*

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

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

## Share-based payments

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

## Financial instruments

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

### *Classification and measurement of financial assets and financial liabilities*

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

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

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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006

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

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

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

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

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

Business segments for the year are as follows:

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

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

### Geographical segments

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

#### 4. PROFIT BEFORE TAX

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

## 5. INCOME TAX EXPENSE

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

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

	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i>
The charge (credit) comprises:		
PRC income tax		
Current	4,712	4,782
Overprovision in previous year	<u>(1,594)</u>	<u>—</u>
	<b><u>3,118</u></b>	<b><u>4,782</u></b>

## 6. DIVIDEND

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

## 7. EARNINGS (LOSS) PER SHARE

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

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

## 8. INVENTORIES

	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i>
Raw materials	1,778	1,496
Merchandise	<u>15,227</u>	<u>18,270</u>
	<b><u>17,005</u></b>	<b><u>19,766</u></b>

## 9. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

## 10. TRADE AND OTHER RECEIVABLES

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

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

Age	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
0 to 60 days	6,162	25,045
60 to 90 days	–	5,235
91 to 180 days	3,486	27,214
Over 180 days	<u>10,456</u>	<u>16,263</u>
	<u><u>20,104</u></u>	<u><u>73,757</u></u>

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

## 11. TRADE AND OTHER PAYABLES

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

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

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

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

## 12. OTHER LOAN

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

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

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



### 13. SHARE CAPITAL

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

### 14. CHANGES IN EQUITY OF THE GROUP

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

### DIVIDEND

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

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

### a. Directors and Chief Executive of the Company

Save as disclosed below, as at 31st December, 2005, none of the Directors, and chief executive of the Company had any interest and short position in shares, debentures or underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

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

Name	Number of H Shares subject to options outstanding at 31st December, 2005			Percentage to the issued H share capital
	Granted under Pre-IPO Share Option Plan	Granted under Share Option Scheme	Total	
<i>Directors</i>				
Dr. Chen Xinxiang	1,309,750	2,700,000	4,009,750	0.51%
Dr. Wang Xu	1,297,350	1,466,000	2,763,350	0.36%
Ms. Zhang Yan	1,308,200	1,466,000	2,774,200	0.36%
Dr. Wu Bo	1,261,700	1,466,000	2,727,700	0.35%
Mr. Qi Qigong	1,244,650	1,466,000	2,710,650	0.35%
Mr. Pan Jiaren	1,244,650	1,466,000	2,710,650	0.35%
Mr. Wong Ying Ho, Kennedy	1,241,550	1,466,000	2,707,550	0.35%
Mr. Ng Kin Fai, Francis	1,241,550	1,466,000	2,707,550	0.35%
	<u>10,149,400</u>	<u>12,962,000</u>	<u>23,111,400</u>	<u>2.98%</u>

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

**Proportion of share options granted and held by each of the directors which become exercisable**

	<b>Exercise period</b>
20%	7th December, 2002 to 6th December, 2011
20%	7th December, 2003 to 6th December, 2011
20%	7th December, 2004 to 6th December, 2011
20%	7th December, 2005 to 6th December, 2011
20%	7th December, 2006 to 6th December, 2011

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

**Proportion of share options granted and held by each of the directors which become exercisable**

	<b>Exercise period</b>
25%	18th August, 2005 to 17th August, 2014
25%	18th August, 2006 to 17th August, 2014
25%	18th August, 2007 to 17th August, 2014
25%	18th August, 2008 to 17th August, 2014

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

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of the Company of any person (other than a Director or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as at 31 December 2005:

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

So far as is known to any Director or chief executive of the Company, the following companies/persons were interested in 10% or more of the equity interests of any other members of the Group as at 31st December, 2005:

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

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

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

## SHARE OPTIONS

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

Under the Pre-IPO Share Option Plan, the Pre-IPO Options had been granted in prior years at an exercise price of HK\$0.48 per H Share, which is the placing price upon the listing of the Company's H Shares, exercisable within a period of ten years from the date of grant subject to restrictions imposed by the relevant PRC laws and regulations. These options were to recognise the past and present contributions of the grantee to the Group. A summary of the Pre-IPO Options granted is as follows:

	At 1st January, 2005	Lapsed during the period	At 31st December, 2005
Directors of the Company	10,149,400	—	10,149,400
Supervisors of the Company	3,795,950	—	3,795,950
Senior management of the Company	4,836,620	—	4,836,620
Senior advisors of the Company	2,619,500	—	2,619,500
Advisors of the Company	4,309,930	—	4,309,930
Other employees of the Company and its subsidiaries	23,040,750	(3,061,095)	19,979,655
	<u>48,752,150</u>	<u>(3,061,095)</u>	<u>45,691,055</u>

## (b) Share Option Scheme

Pursuant to the Share Option 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 initial 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 for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the number of shares to be issued by the Scheme and other option scheme and the number of issued H Shares of the Company from time to time and no employee shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12 months period up 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.

A summary of the Share Options granted by the Company under the Share Option Scheme during the year were as follows:

	At 1st January, 2005	Lapsed during the period	At 31st December, 2005
Directors of the Company	12,962,000	–	12,962,000
Supervisors of the Company	4,398,000	–	4,398,000
Senior management of the Company	9,166,000	–	9,166,000
Senior advisors of the Company	11,264,000	–	11,264,000
Advisors of the Company	3,302,000	–	3,302,000
Other employees of the Company and its subsidiaries	23,822,000	(3,093,000)	20,729,000
	<u>64,914,000</u>	<u>(3,093,000)</u>	<u>61,821,000</u>

## COMPETING INTERESTS

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

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors for the year ended 31st December 2005.

## **AUDIT COMMITTEE**

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

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

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

By Order of the Board  
**CAPINFO COMPANY LIMITED\***  
**Dr. CHEN Xinxiang**  
*Chairman*

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

*As of the date hereof, the executive directors of the Company are Dr. Chen Xinxiang, Dr. Wang Xu, Ms. Zhang Yan, Dr. Wu Bo; the non-executive directors of the Company are Mr. Li Minji, Mr. Xing Dehai, Mr. Xu Zhe, Mr. Bai Liming, Mr. Qi Qigong, Mr. Pan Jiaren, Mr. Ye Yongdong, Mr. Lu Dongtao, Ms. Tan Guoan; and the independent non-executive directors of the Company are Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*

\* For identification purposes only