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**CAPINFO COMPANY LIMITED\***

**首都信息發展股份有限公司**

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

**(Stock Code: 8157)**

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO THE TELEPHONE RELATED SERVICES  
AND DEDICATED CIRCUIT LEASING SERVICE**

**SUMMARY**

As disclosed in the announcement of the Company dated 20 October 2003, the Company has been subscribing to the telephone lines and related services provided by BCC upon normal commercial terms and at market rates.

Pursuant to the announcement of the Company dated 2 May 2006, the Company has been subscribing to DCLS pursuant to the DCLS Original Agreement (extended by DCLS Renewal Agreements), and the term of the DCLS Renewal Agreement V expired on 30 June 2007.

The Company and BCC entered into the Telephone Related Services Agreement on 2 July 2007 for three years and the DCLS Renewal Agreement VI (which the term of the DCLS Original Agreement and the subsequent DCLS Renewal Agreements have been extended further) on 29 June 2007 for one year, pursuant to which the Company proposed annual caps for the Telephone Related Services Transactions for the three years ending 31 December 2009 of RMB 1.8 million, RMB 2.7 million and RMB 4 million respectively, and the propose caps for the DCLS Transactions are RMB 12 million and RMB 22 million for the period from 1 July 2007 to 31 December 2007 and 1 January 2008 to 30 June 2008 respectively.

BCC holds 80% interests in one of the promoters of the Company, Beijing Telecommunication Investments Co., Ltd. and thus is a connected person (as defined under the GEM Listing Rules) of the Company. Accordingly, each of the Telephone Related Services Transactions and the DCLS Transactions will constitute continuing connected transactions under the GEM Listing Rules.

The applicable percentage ratios (other than the profit ratio) for the proposed caps of the Telephone Related Services Transactions for each of the three years ending 31 December 2009 of RMB 1.8 million, RMB 2.7 million and RMB 4 million are on an annual basis, less than 2.5%. Hence, the Telephone Related Services Transactions are, pursuant to Rule 20.34 of the GEM Listing Rules, only subject to reporting and announcement requirements in accordance with Rules 20.45 to 20.47 of the GEM Listing Rules and are exempt from the independent shareholders' approval requirement. However, as the applicable percentage ratios (other than the profit ratio) for the proposed caps of the DCLS Transaction for the period from 1 July 2007 to 30 June 2008 of RMB 34 million are on an annual basis, more than 2.5%, the DCLS Transaction is therefore subject to the reporting, announcement and independent shareholders' requirements pursuant to Rule 20.35 of the GEM Listing Rules. The Company is also required to comply with the annual review requirements under Rules 20.37 to 20.38 of the GEM Listing Rules in respect of the Telephone Related Services Transactions and the DCLS Transactions.

An independent board committee will be established to consider, among other things, the DCLS Transactions and the proposed annual caps of the DCLS Transactions and an independent financial adviser will be appointed to advise, among other things, the independent board committee and the Independent Shareholders in relation to the DCLS Transactions and the proposed annual caps of the DCLS Transaction.

A circular containing, among other things, further information on the DCLS Transactions and the proposed annual caps of the DCLS Transactions, and a notice to convene the extraordinary general meeting will be dispatched to the shareholders of the Company as soon as practicable in accordance to the GEM Listing Rules.

## **INTRODUCTION**

Reference is made to the announcements of the Company dated 20 October 2003 and 2 May 2006 in relation to the provision of telephone lines and related services and DCLS by BCC respectively.

As disclosed in the announcement of the Company dated 20 October 2003, the Company has been subscribing to the telephone lines and related services provided by BCC upon normal commercial terms and at market rates. A waiver from strict compliance with the reporting and announcement requirements of the GEM Listing Rules has been granted by the Stock Exchange to the Company on the annual caps for the three years ended 31 December 2006 in relation to the subscription of telephone lines and related services. Since the Directors expected that the applicable percentage ratios (other than the profits ratio) of the telephone lines and related services provided by BCC for the year ending 31 December 2007 was less than 0.1%, which constitute the de minimis transaction under Rule 20.31, the telephone lines and related services transaction was therefore exempted from the independent shareholders' approval requirement under Rule 20.34 of the GEM Listing Rules. However, based on the expected increase in the usage of telephone lines and related services since the end of May 2007, the Directors are of the

view that the applicable percentage ratios (other than the profit ratio) of the Telephone Related Services Transactions for the three years ending 31 December 2009 shall exceed 0.1% but less than 2.5%. The Telephone Related Services Transactions are therefore subject to the reporting and announcement requirements pursuant to Rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirement under Rule 20.34 of the GEM Listing Rules. Hence, the Company entered into the Telephone Related Services Agreement with BCC on 2 July 2007 to continue subscribing for the telephone lines and related services provided by BCC from 1 January 2007 to 31 December 2009. The Telephone Related Services Transactions for the five months ended 31 May 2007 fall within the de minimis transactions and are exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 20.31 of the GEM Listing Rules. The Directors consider that there is no delay in publishing this announcement.

Pursuant to the announcement of the Company dated 2 May 2006, the Company has been subscribing to DCLS pursuant to the DCLS Original Agreement (extended by DCLS Renewal Agreements), and the term of the DCLS Renewal Agreement V expired on 30 June 2007. Based on the foregoing, the Company entered into the DCLS Renewal Agreement VI with BCC on 29 June 2007 to continue subscribing for DCLS from 1 July 2007 to 30 June 2008.

## **1. THE TELEPHONE RELATED SERVICES AGREEMENT**

**Date:**

2 July 2007

**Parties:**

BCC and the Company

**Major terms:**

The Company and BCC entered into the Telephone Related Services Agreement for three years, in which the expiry date is 31 December 2009.

BCC will provide telephone lines and related services to the Group and the fees paid by the Group are based on the standard fees that apply to all users of telephone lines and related services.

## **2. THE DCLS RENEWAL AGREEMENT VI**

**Date:**

29 June 2007

**Parties:**

BCC and the Company

**Major terms:**

The Company and BCC will extend the term of the DCLS Original Agreement to 30 June 2008, which may further be extended by the parties before expiration of the term by entering into a further renewal agreement.

The DCLS Renewal Agreement VI forms an integral part of the DCLS Original Agreement. BCC will provide DCLS to the Company and a fee will be payable by the Company based on the estimated number of leased lines and a monthly fee equal to 20% discount to the DCLS Standard Fees, of which such discount is subject to adjustments based on the prevailing market situation to be agreed by BCC and the Company from time to time. Different DCLS Standard Fees will be charged according to the speed capacities of the circuit line as measured by Kbps or Mbps. There is no minimum purchase requirement specified in the agreement in relation to the DCLS Transaction. Save as the extension of the term of the DCLS Original Agreement and the possible variation on the 20% discount, all other terms and conditions of the DCLS Original Agreement, as amended by the DCLS Renewal Agreements, will remain applicable.

**3. BASIS OF DETERMINING THE CAPS OF THE TELEPHONE RELATED SERVICES AGREEMENT AND THE DCLS RENEWAL AGREEMENT VI***(i) The Telephone Related Services Agreement*

As disclosed in the announcement of the Company dated 20 October 2003, the Company has been subscribing to the telephone lines and related services from BCC upon normal commercial terms and at market rates. The expenses paid by the Company for the subscription of telephone lines and related services were mainly based on the duration of usage, and the prescribed market rate. The Company presumes that the expenses incurred in the subscription of telephone lines and related services were directly correlated to number of staff of the Group.

For each of the three years ended 31 December 2006, the expenses payable by the Company to BCC for the subscription of telephone lines and related services were approximately RMB 0.4 million, RMB 0.5 million and RMB 1.3 million respectively.

The proposed caps of the Telephone Related Services Transactions are determined after taking into consideration of (i) the historical fees paid for the subscription of telephone lines and related services; and (ii) the expected increase in the Telephone Related Services Transactions of approximately 50% for each of the two years ending 31 December 2009 based on the expected growth of the Group. The Directors consider the proposed caps of RMB 1.8 million, RMB 2.7 million and RMB 4 million for the three years ending 31 December 2009 respectively are in line with the expected increase in the usage of telephone lines and related services by the Group for the three years ending 2009.

*(ii) The DCLS Renewal Agreement VI*

In order to facilitate the annual review of the DCLS Transactions by the independent non-executive Directors and the auditors of the Company as required under Rule 20.37 to 20.38 of the GEM Listing Rules, the Directors propose two caps of RMB 12 million and RMB 22 million for the DCLS Transactions for the period from 1 July 2007 to 31 December 2007 and 1 January 2008 to 30 June 2008 respectively.

For each of the three years ended 31 December 2006, the transactions contemplated under the DCLS Renewal Agreements amounted to approximately RMB 9.7 million, RMB 7.1 million and RMB 7.1 million respectively.

The proposed caps of the DCLS Transactions are determined after taking into consideration of (i) the historical fees paid for the usage of DCLS; and (ii) the expected increase in the business of e-Government technology services and e-Commerce technology services of the Group and the expected increase in the DCLS Standard Fees to be incurred for different types of lines (measured by the speed and capacity of data transmission) of 83% for each of the period from 1 July 2007 to 31 December 2007 and from 1 January 2008 to 30 June 2008 respectively. The Directors consider the proposed caps of RMB 12 million and RMB 22 million for the period from 1 July 2007 to 31 December 2007 and from 1 January 2008 to 30 June 2008 respectively are in line with the development progress of the existing projects held by the Group which uses DCLS.

**4. REASONS FOR ENTERING THE TELEPHONE RELATED SERVICES AGREEMENT AND DCLS RENEWAL AGREEMENT VI**

The Group is principally engaged in the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment. The Group's operations are organised into two operating divisions, namely e-Government technology services and e-Commerce technology services.

*(i) The Telephone Related Services Agreement*

The Company, being an Internet technology and network solutions provider, has been subscribing to the telephone lines and related services provided by BCC in its ordinary course of business since the commencement of business.

*(ii) The DCLS Renewal Agreement VI*

The Directors have confirmed that local dedicated circuits are major components for the operation of the business in e-Government technology services and e-Commerce technology services of the Group. The Directors also confirmed that BCC is the largest operator with the broadest coverage of the local dedicated circuit in Beijing which covers the locations required

under the projects carried out by the Group in relation to the e-Government technology services and e-Commerce technology services business and the entering of the DCLS Renewal Agreement VI will facilitate the operation and the completion of the above-mentioned business.

The Directors (including the independent non-executive Directors) considered that the terms of the Telephone Related Services Agreement and the DCLS Renewal Agreement VI were arrived at after arm's length negotiation between the parties. Having considered the above-mentioned terms and reasons of entering into the Telephone Related Service Agreement and the DCLS Renewal Agreement VI, the Directors (including the non-executive Directors) consider that the Telephone Related Services Transactions and the DCLS Transactions are on normal commercial terms, and will be entered in the ordinary and usual course of business of the Company and that the terms of the Telephone Related Services Transactions and the DCLS Transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## **5. GENERAL**

BCC is a company established in the PRC and is principally engaged in providing telecommunication service, data transmission service, Internet service and other related services.

BCC holds 80% interests in one of the promoters of the Company, Beijing Telecommunication Investments Co., Ltd. and thus is a connected person (as defined under the GEM Listing Rules) of the Company. Accordingly, each of the Telephone Related Services Transactions and the DCLS Transactions will constitute continuing connected transactions under the GEM Listing Rules.

The applicable percentage ratios (other than the profit ratio) for the proposed caps of the Telephone Related Services Transactions for each of the three years ending 31 December 2009 of RMB 1.8 million, RMB 2.7 million and RMB 4 million are on an annual basis, less than 2.5%. Hence, the Telephone Related Services Transactions are, pursuant to Rule 20.34 of the GEM Listing Rules, only subject to reporting and announcement requirements in accordance with Rules 20.45 to 20.47 of the GEM Listing Rules and are exempt from the independent shareholders' approval requirement. However, as the applicable percentage ratios (other than the profit ratio) for the proposed caps of the DCLS Transaction for the period from 1 July 2007 to 30 June 2008 of RMB 34 million are on an annual basis, more than 2.5%, the DCLS Transaction is therefore subject to the reporting, announcement and independent shareholders' requirements pursuant to Rule 20.35 of the GEM Listing Rules. The Company is also required to comply with the annual review requirements under Rules 20.37 to 20.38 of the GEM Listing Rules in respect of the Telephone Related Services Transactions and the DCLS Transactions.

An independent board committee will be established to consider, among other things, the DCLS Transactions and the proposed annual caps of the DCLS Transactions and an independent financial adviser will be appointed to advise, among other things, the independent board committee and the Independent Shareholders in relation to the DCLS Transactions and the proposed annual caps of the DCLS Transaction.

A circular containing, among other things, further information on the DCLS Transactions and the proposed annual caps of the DCLS Transactions, and a notice to convene the extraordinary general meeting will be dispatched to the shareholders of the Company as soon as practicable in accordance to the GEM Listing Rules.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“BCC”	中國網通(集團)有限公司北京市分公司(前稱中國網通集團北京市通信公司) (China Netcom (Group) Company Limited Beijing Branch (formerly known as CNC Beijing Communication Corporation))
“Board”	the board of Directors
“Company”	首都信息發展股份有限公司 (Capinfo Company Limited), a joint stock limited company established in the PRC
“DCLS”	the provision of dedicated circuit leasing service by BCC to the Company
“DCLS Agreements”	including the DCLS Original Agreement and the DCLS Renewal Agreements
“DCLS Original Agreement”	an agreement dated 4 April 2001 between the Company and BCC for the provision of DCLS
“DCLS Renewal Agreements”	including (i) an agreement dated 14 December 2001 between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 31 December 2002; (ii) an agreement dated 20 June 2003 between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 30 June 2004; (iii) an agreement dated 9 July 2004 entered into between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 30 June 2005; (iv) an agreement dated 21 April 2005 entered into between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 30 June 2006; and (v) an agreement dated 30 April 2006 entered into between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 30 June 2007



“DCLS Renewal Agreement VI”	a conditional agreement dated 29 June 2007 entered into between the Company and BCC to further extend the terms of the DCLS Original Agreement for DCLS to 30 June 2008
“DCLS Standard Fees”	the standard fees published on the official website of BCC and are the fees offered by BCC to its ordinary customers in relation to the dedicated circuit leasing services announced by BCC from time to time and different standard fees will be charged according to the speed capacities of the circuit line (as measured by kbps or Mbps)
“DCLS Transactions”	the continuing connected transactions between the Company and BCC contemplated under the DCLS Renewal Agreement VI
“Director(s)”	director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Independent Shareholders”	shareholders of the Company (other than BCC and its associates) who are entitled to vote at the extraordinary general meeting pursuant to the GEM Listing Rules
“Internet”	an electronic communications network that connects computer networks and organisation computer facilities around the world
“kbps”	kilobits per second (or thousands of bits per second), is a measure of bandwidth (the amount of data that can flow in a given time) on a data transmission medium
“Mbps”	megabits per second (or millions of bits per second), is a measure of bandwidth (the amount of data that can flow in a given time) on a data transmission medium
“PRC”	The People’s Republic of China and for the purpose of this announcement, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Telephone Related Services Agreement”	an agreement dated 2 July 2007 entered between the Company and BCC for the provision of telephone lines and related services by BCC



“Telephone Related Services Transactions” the continuing connected transactions between the Company and BCC contemplated under the Telephone Related Services Agreement

By order of the Board  
**Dr. CHEN Xinxiang**  
Chairman

Beijing, the People’s Republic of China  
5 July 2007

*In this announcement, the English names of the PRC entities are translation of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (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.*

*As of the date hereof, the executive Directors are Dr. Chen Xinxiang, Dr. Wang Xu, Ms. Zhang Yan; the non-executive Directors are Mr. Li Minji, Mr. Xing Dehai, Mr. Xu Zhe, Mr. Bai Liming, Dr. Wu Bo, Mr. Qi Qigong, Mr. Pan Jiaren, Mr. Xia Peng, Mr. Liu Zhiyong, Ms. Lu Xiaobing and the independent non-executive Directors are Mr. Chen Jing, Mr. Ye Lu 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